Whole Washington
P.O. Box 17500, Seattle, WA 98125

DR. FRIEDMAN FINANCIAL STUDY
EXECUTIVE SUMMARY

DECEMBER 2017

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Economic Analysis of Single Payer in Washington State: Context, Savings, Costs, Financing

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Executive Summary prepared by Whole Washington

This economic analysis explores the implications of the universal health plan proposed by Whole Washington if it were to go into effect in 2019. The proposal would replace Washington's current multi-payer system in which individuals, private businesses and government entities pay public and private insurers for health care coverage. The proposal would establish a state health plan to finance medically necessary care including hospitalization, doctor visits, dental, vision, mental/behavioral health, prescribed occupational and physical therapy, prescription drugs, medical devices, and rehabilitative care. The plan would offer this comprehensive coverage to all residents and would pay for it with broad-based, progressively graduated premiums assessed by the State on payrolls and on non-payroll income.

The Current Costs are High & Rising Fast

Personal health care spending has been rising at an unsustainable pace in the state of Washington.

- Health care costs have risen since 1991, from under 10% of state income to over 14% in 2014.
- With current policies, it is projected to rise to almost 17% of state income in the next decade (see Figure 2).

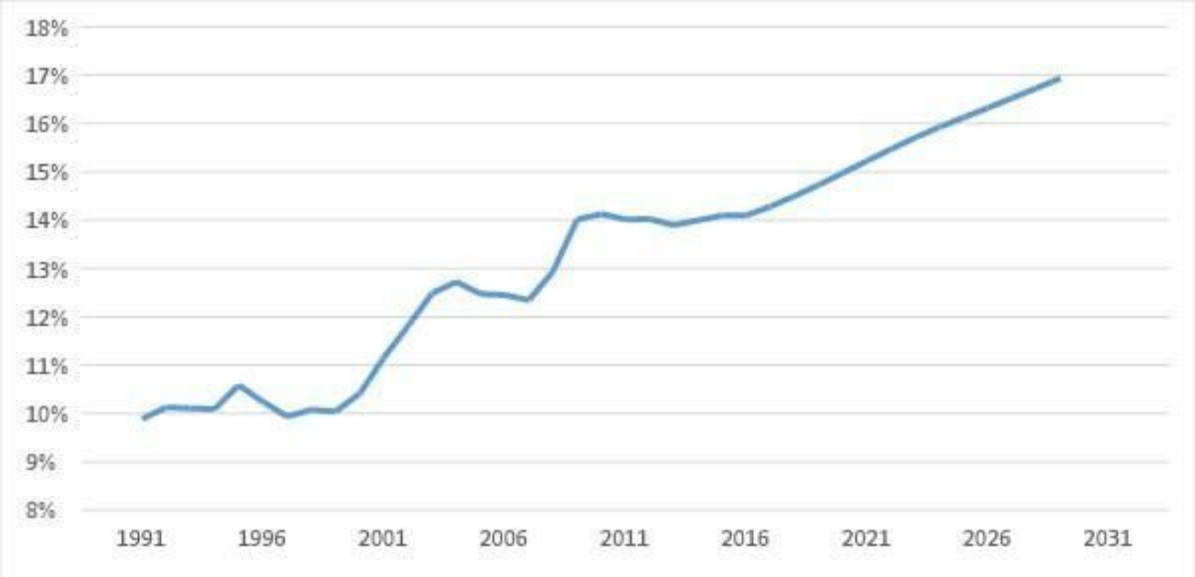

Figure 2. Health Spending as Share of GDP

Health care cost inflation is squeezing disposable income for residents of Washington.

- If health care spending per person had risen only as fast as income, then spending in 2014 would have been 29% less, saving the average person $2,526, and more than $10,000 for a family of four.
- Spending projections for 2029 suggest that spending will be more than double what it would have been at the 1991 rate, costing Washington over $7,000 for each of it's 7 million residents.

Employers and Employees are Paying More Too

The system of employment- based health insurance places the burden of health care inflation especially hard on wages and salaries.

- As a share of employee compensation, health care spending rose from 18% in 1998 to 27% in 2014 and is projected to pass a third in 2029.
- Higher health care spending costs the average worker in Washington over $2,846 in 2014, and is expected to cost $8,387 in 2029.

Residents of Washington have experienced this shift towards market-oriented health care with higher deductibles and copays.

- In 2003, 37% of employees were in plans without deductibles, they had "first-dollar coverage," and the average deductible in a plan with a deductible was $569.
- By 2014, the proportion without deductible had fallen to 7%, and the average deductible for an employee in a plan with a deductible had more than doubled in size to $1,341.
- Including the zero cost for plans without deductibles, the average deductible for an employee in an employer-sponsored health insurance plan rose from under $400 to over $1,200 (see Figure 6).

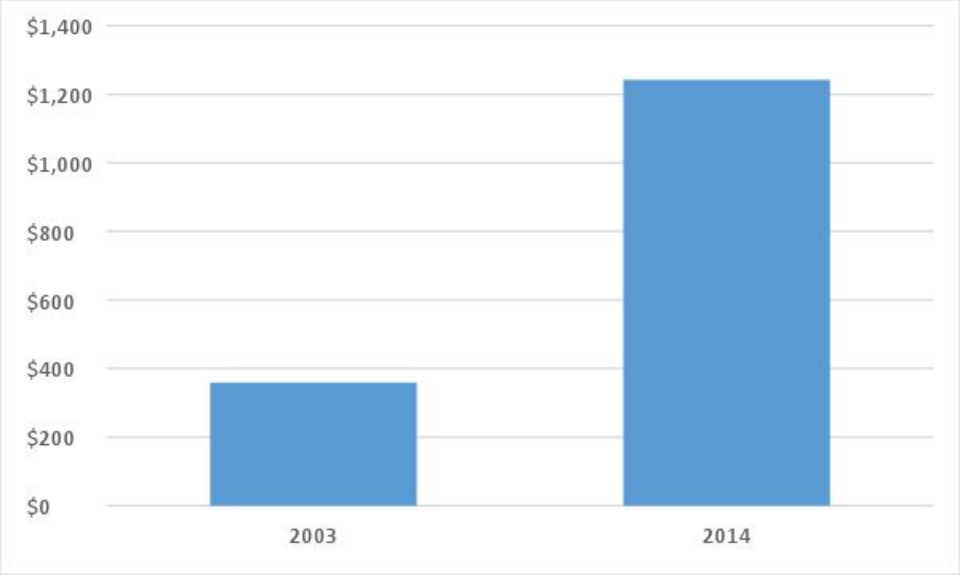

Figure 6. Average deductible, Washington state employees in employer-sponsored health insurance plans.

Less and less Washington residents are receiving coverage through their employer.

- As recently as 1999, over 60% of employees in Washington had employer-sponsored

insurance, and 29% covered their entire families.

- By 2014, however, the proportion with any coverage fell to under half, and only 13% have family coverage (see Figure 7).
- Instead of employer-provided insurance, more people in Washington are seeking coverage through individual plans (about 6% of the population in 2015), or especially, through public programs like Medicaid (22%) or Medicare (14%).

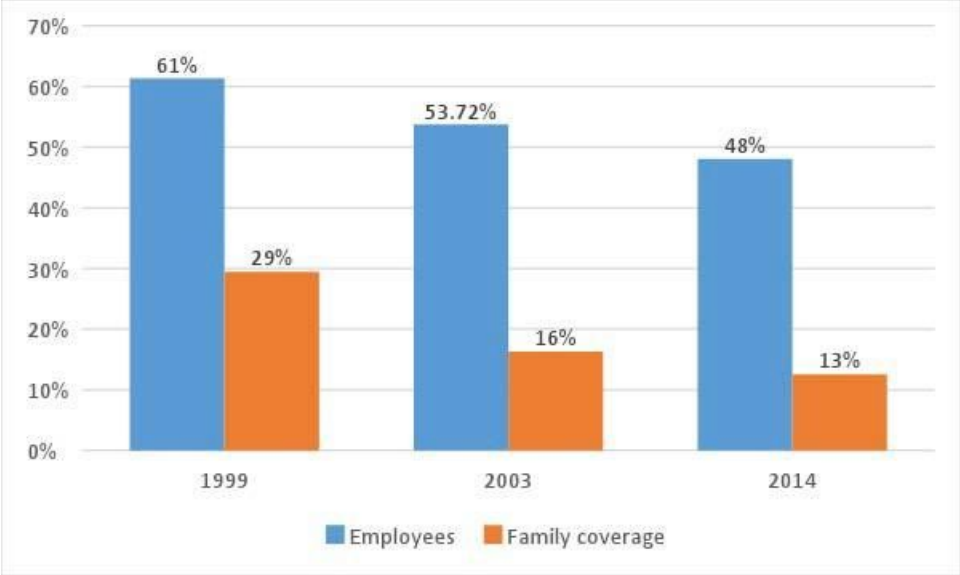

Figure 7. Employer provided health insurance coverage, Washington 1999-2014

Financial Barriers Raise Mortality Rates

In the state of Washington, there is a close link between higher mortality and rising copayments, deductibles, and other charges.

- In counties where more people report that they cannot afford to see a doctor the number of preventable deaths per 100,000 increases by 11 for every percentage point increase in the proportion of resident who report they could not see a doctor because of cost.
- Going from the county with the lowest share reporting they could not see a doctor (Whitman County at 10%) to the county with the highest share (Adams at 19%) results in 114 fewer deaths per 100,000, or 22 more deaths in Adams and 53 fewer in Whitman.
- Across counties in Washington, there are over 8 additional deaths per 100,000 for every percentage point rise in the child-poverty rate.
- Going from one standard deviation below the average county rate, about 18%, to one above, about 28%, the premature, age-adjusted mortality rate rises by over 80 per 100,000, or by over 25%.

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Assessment of Current System

There are in Washington now, 13 different private companies offering health insurance, with a total of 154 separate plans.

- The proliferation of different plans inflates costs for insurers and providers, even while limiting the ability of any insurance company to limit monopoly pricing.
- Multiple plans inflate insurer expenses by raising marketing costs, saddling insurers with the administrative costs of managing an average of almost 12 plans per company, and by limiting scale economies in bill processing.
- The proliferation of plans also raises costs for providers who are forced to maintain the administrative apparatus to bill all these different plans.

Projected Healthcare Spending

Projected personal health expenditures		
Hospital	$	28,415
Physician	$	18,980
Other Professional	$	2,979
Dental	$	4,579
Home Health	$	1,729
Drugs	$	7,311
Durable Medical	$	1,343
Nursing Home	$	4,248
Other	$	3,182
Projected health insurance administrative expenditures		
Private health insurance	$	5,475
Public health programs	$	1,117
Employer expenses	$	622
Health consumption expenditures	$	79,980

Table 1. Health care spending, non-investment, Washington State, 2019, current system, in $millions

- Health care spending per capita is expected to increase between 2014 and 2019 by about 25% and total spending is expected to increase by about 33%.
- The cost of health care under the current system is expected to double over 10 years, increasing by over $70 billion and rising from 14% of the state output to 17%.

- This increase will require that 3% of real state income be transferred from other activities, from schools, infrastructure, or vacation spending, to pay even more to a bloated health care administration and to fund monopolistic profits in drugs, hospitals, and other medical activities.

Including the cost of administering insurance plans, spending in 2019 is expected to be nearly $80 billion (see Table 1).

- Over 9% of total spending is on the administration of the payment system including private insurance and employer-sponsored self-insured plans (which are administered much like insurance), as well as government insurance programs.
- Private health insurers account for the bulk of this spending, spending nearly 15% of premiums on administrative activities.

Projecting Universal Healthcare Savings

Administrative Savings: Insurers and Businesses

- In 2019, administering the third-party payer system will cost governments and businesses in Washington over $6.5 billion; lowering administrative costs to the level of traditional Medicare (1.8%) would save over $5 billion in 2019, plus another $600 million saved by employers who will no longer have to identify and administer health insurance plans.

Administrative Savings: Providers, Billing, and Claims

It costs much more to process bills in our system than in other countries; the Commonwealth Fund reports that doctors report "wasting time on billing and insurance claims."

- Physicians in the U.S. devote one-sixth of their work hours on administration, including bill processing, four times the time spent by their Canadian counterparts.
- Simplifying the reimbursement process would save physicians nearly six hours a week, equivalent to more than a 10% increase in the available supply of physicians.
- If Washington health care providers were to spend, proportionally, only as much on administration as do physicians in Canada, or 14% of revenue instead of 24%, they would save over $5.5 billion in administrative costs.

Savings: Fair Collective Bargaining & Price Negotiations

A single agency negotiating prices for 7 million residents of Washington should negotiate dramatically lower price.

- If the state negotiates prices that are 37% lower, less than the savings achieved by the Veterans Administration, it would save over $7 billion; similar bargaining over the price of medical equipment would save a further billion.

Washington hospitals collect 85% as much from Medicare as from all payers. After deducting 12% for the administrative cost of processing bills for the private insurance system, savings already counted, this leaves 3% for overcharging.

- Washington could save $795 million by restraining monopoly pricing by hospitals.

Savings: Preventing & Identifying Billing Waste, Fraud, and Abuse

A single payer authority would reduce fraud in three ways.

1. Eliminating multiple payers would immediately eliminate the possibility of duplicate billing.
2. It would also simplify the process of tracking bills.
3. In addition, public authorities have greater subpoena and prosecutorial powers, giving them more power to stop fraud.

- By reducing fraud and "accidental" overcharging, Washington could, conservatively, save 2% of total costs or over $1.4 billion.

Total Savings on Current Healthcare Provided

Altogether, projected gross savings on current health care activities come to almost $16 billion in 2019, 20% of projected health care spending in that year. These are gross savings before any expansions or improvements in the provision of medical services.

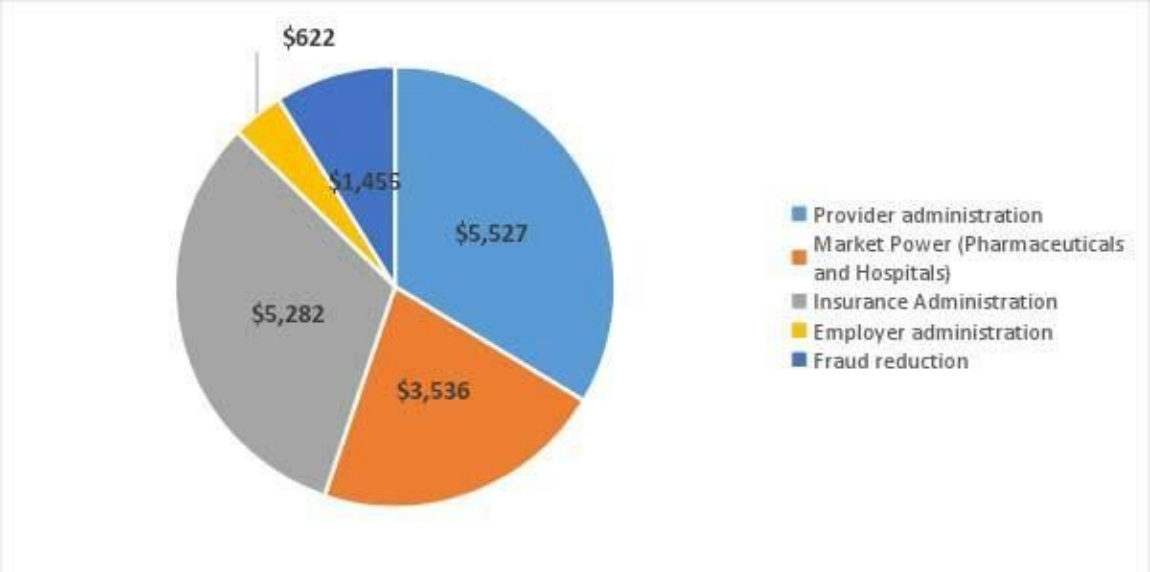

Figure 14. Single payer savings, Washington, 2019 $millions

Savings accrued would allow Washington to expand access to care for those still without insurance, pay all providers fairly, reduce out-of-pocket costs and barriers to access for those with insurance, and finance an extensive program to help those workers displaced in the transition.

Proposed Improvements Costs

Universal coverage	$	1,336
Utilization (removal of copays and deductibles)	$	3,249
Medicaid rate	$	680
Assumption of Medicare premiums	$	1,878
Public administration of program improvements	$	91.71
Transition costs for UI and retraining (first year)	$	92
Cost of program improvements	$	7,327

Table 3. Program improvements under Washington single payer program ($millions, 2019)

Improvement Costs Projections: Reduced Financial Barriers to Care

- Expanding coverage to the over 493,200 uninsured in Washington under the ACA will cost over $1.3 billion.
- Utilization would increase more in Washington in 2019 than might have been the case to the extent that increased "cost-sharing" by insurance companies – imposing financial barriers to care – has contributed to the slowdown in health care spending since 2008.
- $3.2 billion in savings would be applied to the projected 5% increase in utilization of healthcare services by Washington residents previously uninsured or underinsured.

Improvement Cost Projections: Reimbursing Cost of Medicare Premiums

About 1 million residents of Washington are over age 65 and most are eligible for Medicare, including hospitalization (Part A), doctor visits (Part B), and the Medicare drug benefit (Part D). All have to pay premiums for Part B, although for low-income recipients have their premiums paid by Medicaid, and some have premiums for Part A (because of lack of sufficient coverage) and Part D (depending on income and the plan chosen). None would have reason to continue to pay premiums under a state single payer plan because everyone would receive benefits regardless of Medicare status. But in order for the program to continue to receive Medicare payments, the population would have to be enrolled in Medicare, and someone must pay the premiums.

- The state program will pay these premiums at a cost of $1.9 billion in 2019. While it raises costs for the Washington state program, it is an equivalent red direct reduction in cost to Medicare recipients without increasing overall health care spending.

Improvement Costs Projections: Medicaid Rate Equity

- By folding Medicaid into a single state program, the legislation would raise overall spending by about 1% or $680 million.

Improvement Costs Projections: Public Administration of Coverage

- Additional administrative costs needed to provide expanded and improved coverage under our proposal is projected to be near $92 million.

Temporary Improvement Costs Projections: Displaced Workers

While many administrative workers will be displaced by the more efficient single-payer plan,

employment in health care will change little because of the increase in utilization by newly insured workers and those no longer subject to constraint by copayments and deductibles.

- The displacement of about 8% of workers due to administrative efficiency will be balanced by the creation of positions equivalent to 7% of healthcare employment due to the increased demand for health care workers coming with the expansion in coverage and increased utilization.

The Unemployment Insurance system will provide support for these workers for six months, long enough, based on recent experience, for over 70 percent to find new jobs. In addition, a portion of revenue raised may be used for retraining and job transition for employees who may be displaced.

- If the program funded another 78 weeks of unemployment compensation with job training to the remaining unemployed, then it would cost $92 million in the first year and $21 million in the second.
- By the end of the second year, over 99% of the displaced workers will have found new jobs employment.

Benefits of Universal Coverage for Providers

A single payer program would involve a dramatic shift in health expenditures in Washington away from administrative activities towards the provision of health care. While *total* expenditures would *fall,* there would be more spending on the actual delivery of health care services.

- Instead of paying for corporate executives, advertising, insurance company profits, and other administrative expenses unrelated to health care, payments to providers increase in absolute amount, rising from 66% of spending to 85% percent.
- Under the current system, administrative costs account for almost 30% of total health care spending and overcharging for drugs and hospitals comes to another 5 percent.
- Under a single-payer program, administrative spending would be reduced by over half, down to 15 percent (administrative costs of the plan, plus continuing, although reduced, administrative costs of health care providers), making more money available for the provision of health care (see Figure 15).

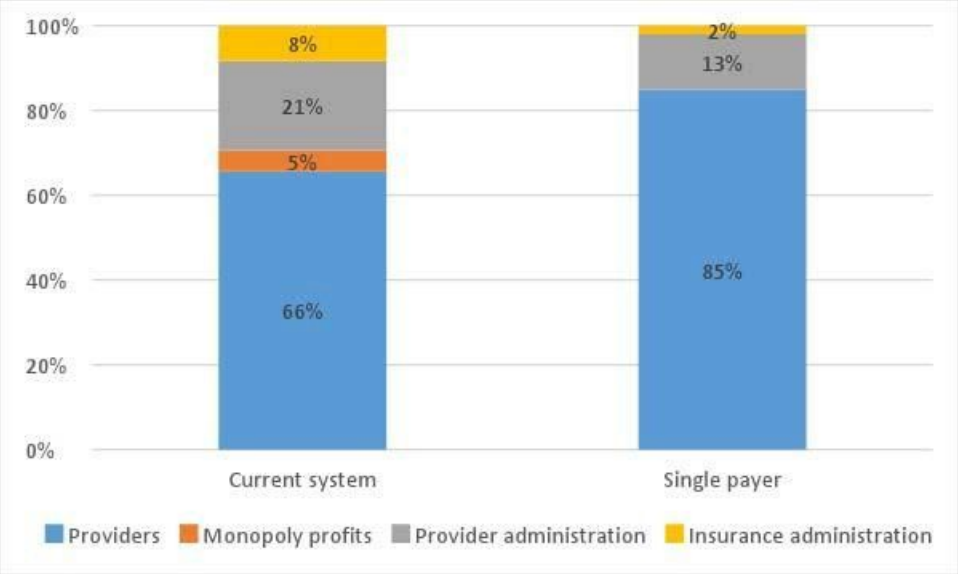

Figure 15. Distribution of Payments under Current System and Single Payer.

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Benefits of Universal Coverage for Washington

Resulting in $9 Billion Net Savings

- A single-payer program in the state of Washington will require $71 billion in 2019, including $42 billion in existing revenue and $29 billion in new revenue.
- With a substantial increase in state taxes, the $29 billion will replace nearly $41 billion in "private taxes" currently paid into the private health insurance system by residents

The question then is not whether Washington can afford single payer. Rather it is whether the people of Washington can continue to pay for an inefficient and wasteful health care system?

The funding sources studied and proposed are described below:

- The 8.5% payroll premium is less than employers and their employees now pay for health insurance; it is less than half the 18% now paid for covered workers. The exemption shields low-wage workers from any payment. The exemption phases out at a rate of $0.25 for every dollar so that it disappears completely at $60,000 in wage and salary income.
- The 8.5% premium on capital income (including business net income) balances the assessment of wage and salary income so that all categories of income are treated equally. The basic exemption ($15,000) is the same as that for wage income and assures that virtually all with family incomes of less than $100,000 will be exempt from this charge.
- The 1% income tax assures that all income sources will contribute and with a $15,000 exemption to protect the poorest households.
- Premiums will be paid by all adults in the labor force with an income above twice the poverty level. The premium level is set to the rate for basic Medicare Part B ($134/month).

The program is expected to generate $29.8 billion, or $1.5 billion more than is needed to fund the Washington State program (including temporary improvement costs).

Proposed Funding Mechanisms: Effects on Individuals and Families

The cost will be spread across all payroll and non-payroll income and not concentrated on certain employers, individuals, or families.

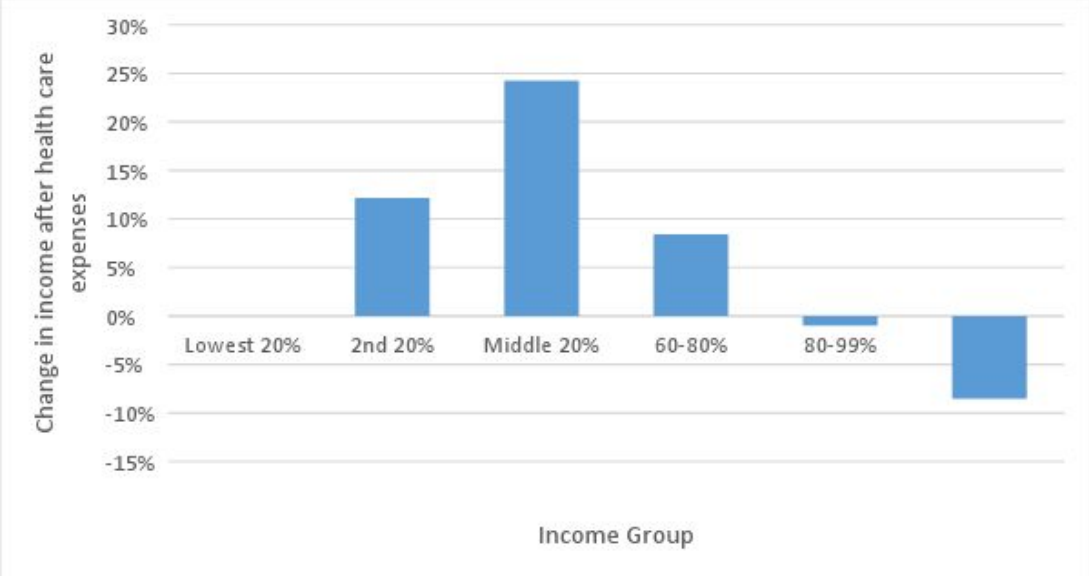

Figure 16. Percentage change in income from single-payer program

- Together, the efficiency gains from the single-payer program and shifting the basis of funding from fixed premiums per covered individual and cost-sharing to a charge related to ability to pay, produce financial benefits for more than 95% of the population of Washington (see Figure 16).
- Most will save thousands of dollars a year compared with what they and their employer currently spend on health insurance premiums and out-of-pocket costs.
- The largest savings will go to working families and to middle-income households, especially those with children, because the burden of family health insurance coverage and cost sharing is particularly heavy on them.

Proposed Funding Mechanisms: Effect on Employees

The current system of employer-provided health insurance was established by employers looking to reduce competition for their workers and to discourage workers from quitting or changing jobs.

- Many workers in Washington currently suffer from job-lock, and are unable to

change jobs or to open new businesses from fear of losing their current health insurance.
- Employers too are discouraged from hiring some workers, older workers or those with families, from fear that they will add to their health insurance bills.

Single payer would make the economy work more efficiently and liberate entrepreneurial energies. It would free workers to seek more efficient employment or to open new businesses, and will liberate employers to choose the best worker for the job.

Proposed Funding Mechanisms: Effect on Employers

Small businesses especially would benefit because new and small businesses pay particularly high health insurance rates.

- Under the current system, a typical Washington start-up that employs a dozen or so workers could pay health insurance premiums of 20% of its payroll.
- Our proposal would lower that burden to less than 7% in payroll assessments.

Washington employers are burdened by some of the highest health insurance costs in the country with family plans costing more than in 41 other states.

- Replacing current health insurance premiums with the proposed assessments would immediately save businesses over $500 million now spent on administering employer provided health insurance, or nearly 0.3% of payroll costs.

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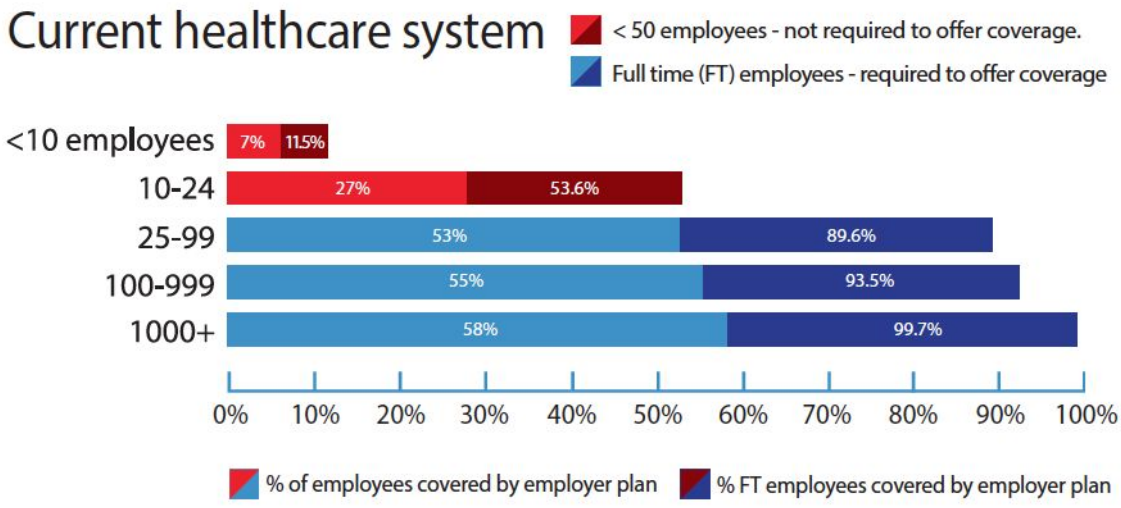
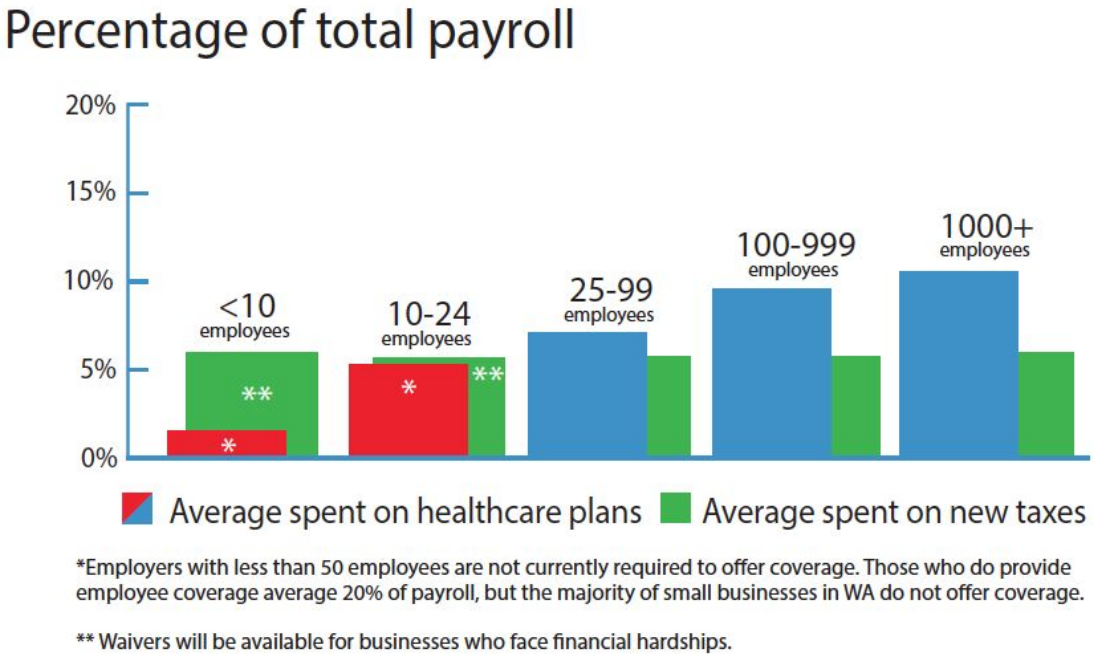
Single payer would be significantly less expensive than existing private insurance; after taking account of the exemption, the payroll assessment would cost businesses 6.4% of payroll, 2 percentage points less than current spending on health insurance premiums for all businesses, and 11.5 percentage points less than is paid for covered workers.





*Employers with less than 50 employees are not currently required to offer coverage. Those who do provide employee coverage average 20% of payroll, but the majority of small businesses in WA do not offer coverage.

** Waivers will be available for businesses who face financial hardships.

On balance, lowering health care costs by the single payer program could increase employment in Washington by almost 3% adding over 100,000 new jobs, many more than the number of workers displaced from billing operations and insurance companies.

While businesses and governments in Washington have committed to provide health insurance to millions of retired workers, they have put aside relatively little to pay for these obligations. Legacy costs, the unpaid benefits associated with past work, burden current economic activity.

- The Pew Charitable Trusts estimates, for example, that the State of Washington has liabilities of nearly $11 billion in promised retiree health insurance benefits without providing any funding.