The Disruptive Distributional Impacts of a Medicare for All Plan

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The Medicare for All proposal advocated by Senator Bernie Sanders of Vermont among others would extend coverage to the remaining 27.5 million uninsured and eliminate premiums and patient co-pays. To achieve this vision, several estimates, including my updated version, place the new federal revenues needed would exceed $32 Trillion over the next decade, Senator Sanders has himself stated that the Federal budgetary cost would be over $30 trillion over a decade. He notes that we are already going to spend $50 Trillion over the same time period. The $50 Trillion figure is projected total national health care spending (public spending plus private spending is $47 Trillion between 2018-2027) —not the increase in federal taxes needed—over the next ten years to finance his plan.[2] This confounding of numbers is making an already complex proposal confusing to voters.

It is important to get some common facts about the magnitude of federal tax increases needed, the magnitude of the winners and losers and loss of jobs. First, the federal tax increases. Several estimates, including my own revised version, show federal revenues would have to increase by over $32 Trillion over the next ten years.[3] This would require substantial increases – about 80 percent more revenues than under current law—in federal income and payroll taxes.

I worked as a legislative consultant for nearly a decade in Vermont on helping to develop proposals to move to universal coverage at lower costs. One proposal I examined was then Governor Shumlin's single payer plan. The Vermont version was a less generous version of Medicare for All (they retained cost sharing of 6 to 13 percent). However, the estimates produced by state and others found that it would require a 9.5 percent increase in income taxes and a new 11.5 percent payroll tax so overall a combined middle-class tax increase of 21 percent.[4] A Medicare for All plan when fully implemented would require even larger tax increases given the elimination of all cost sharing.

Senator Sanders outlines a number of options for raising revenue to help pay for this proposal.[5] For example, his proposal outlines a range of options – from a wealth tax to higher taxes for capital gains and dividends, taxes on estates of high-income households and eliminate tax breaks that subsidize health insurance as well as taxes on businesses - a 7.5 percent income-based premium paid by employers and 4 percent income-based premium.

All of Sanders options together raise about $15 trillion over ten years – far short of the over $30 trillion he proposes to pay for this. He admits that there would be middle-class tax increases required but has not outlined what they are.

Even using very conservative assumptions, Sanders plan still leaves well over $1 trillion per year that would need to be paid for. A shortfall of this magnitude my analysis shows would require an aggregate in taxes – through payroll or income tax of 13 percent. [6]

Allies of the Medicare for All plan correctly points out there would be savings from the approach for families from out of pocket health care costs. Certainly not paying premiums or a deductible or a copayment would save many families money. We estimate that would average over $2 trillion per year over the next ten years. However, taxes would have to be increased by an average of $3.2 trillion over the same period. A Medicare for All plan would create enormous winners and losers that have not been discussed in the debate. My recent analysis compares the dollars savings households with private health insurance would receive through the elimination of premiums and cost sharing to the new federal taxes they would pay to fund the program. The analysis shows that 71 percent of households with private insurance today would pay more in new taxes than they would save through the elimination of premiums and cost sharing.[7]

For example, two-thirds of workers in small firms under 50 would pay more in taxes under a Medicare for All plan than they would save in the elimination of premiums and cost sharing. The tax increases would also hit the middle class. Two-thirds of families of 4 earning $50,000 to $75,000 would pay more in taxes than they would save through a Medicare for All plan. Overall over 10 million households earning between 200 and 300 percent of poverty would pay more in taxes than they would save through the elimination of premiums and cost sharing. Overall nearly 70 million households would pay more in higher taxes than they would save under Medicare for All.

Medicare for All would also result in lost jobs. Medicare for All advocates point out that paying providers at Medicare rates and administrative savings would reduce what we spend on health care. That ignores the fundamental equation that expenditures equal income. For example, paying the over 5,000 community hospitals at Medicare rates would reduce their revenue by 16 percent and eliminate 1.5 million jobs. Hospitals are often the largest employer in many small and mid-size communities that reductions of this magnitude would have enormous economic and social implications for them.[8] The elimination of private insurance would also result in lost jobs through the elimination of health insurance, by some estimates nearly 1 million in the health insurance industry.[9]

Finally, Medicare for All is one of several approaches that could move to universal coverage at lower costs. An alternative approach would build on the Affordable Care Act (ACA) by auto-enrolling low income uninsured into a plan, increase federal tax credits on the exchanges and provide a new focus on primary care through the insurance exchanges and more broadly. Appropriately designed this would be far less disruptive and could also result in universal coverage and reduce health care spending.

NOTES

[1] Opinions expressed are those of the author and do not necessarily reflect those of Emory University.
[2] https://www.politifact.com/truth-o-meter/article/2019/sep/13/cost-medicare-all-sticker-shock-or-bill-relief/ and https://www.cms.gov/Research-Statistics-Data-and-Systems/Statistics-Trends-and-Reports/NationalHealthExpendData/NationalHealthAccountsProjected.html
[3] https://www.urban.org/research/publication/sanders-single-payer-health-care-plan-effect-national-health-expenditures-and-federal-and-private-spending, [3] https://www.scribd.com/doc/296831690/Kenneth-Thorpe-s-analysis-of-Bernie-Sanders-s-single-payer-proposal#scribd and https://www.mercatus.org/publications/government-spending/costs-national-single-payer-healthcare-system
[4] https://hcr.vermont.gov/sites/hcr/files/pdfs/GMC%20FINAL%20REPORT%20123014.pdf
[5] https://www.sanders.senate.gov/download/options-to-finance-medicare-for-all?inline=file

[6] https://www.cbo.gov/budget-options/2018/54804
[7] https://www.healthcare-now.org/296831690-Kenneth-Thorpe-s-analysis-of-Bernie-Sanders-s-single-payer-proposal.pdf
[8] Kevin Schulman and Arnold Milstein, "The Implications of Medicare for All for US Hospitals. JAMA 321 (7): May 7, 2019
[9] Political Economy Research Institute at https://www.peri.umass.edu/publication/item/1127-economic-analysis-of-medicare-for-all