Debt 101
What’s the Deal with Health Care?

In Parts I and II of our “Debt 101” series, we discussed what the US national debt is, why it matters, and how we might possibly lower it. As you now know, the US has a debt problem unlike any it has encountered before.

One of the largest contributors to our debt problem is the cost of health care. In fact, health care is the single greatest cost to the American government—even larger than defense—and it is only going to get more expensive with time. Most young adults (ages 18-30) believe the federal government should be responsible for ensuring Americans have health insurance. But that belief doesn’t necessarily take into account how our complex health care system affects the national debt. What is it, exactly, that makes health care so costly?

Where Do Americans Get Their Health Insurance?

Of the roughly 244 million (noninstitutionalized) civilians in the US under age 65 with health insurance, about two-thirds have coverage through their employers. Another quarter of these insured Americans, in particular people who earn less than twice the federal poverty level (meaning less than $24,280 a year for an individual in 2018), get their insurance from Medicaid and the Children’s Health Insurance Program (CHIP). The rest have Medicare (which covers the disabled as well as seniors) or nongroup coverage obtained either through the private market or through the marketplaces set up by the Affordable Care Act (ACA, or “Obamacare” to some). For calendar year 2018, the Congressional Budget Office (CBO) projects that 29 million people (11 percent of noninstitutionalized civilians younger than 65) will be uninsured (Figure 1).

Figure 1
Health Insurance Coverage in 2018 for People under Age 65
Millions of people

Source: Congressional Budget Office; Staff of the Joint Committee on Taxation (2018)
Of the population of Americans 65 or over, about 50.3 million are at least partially insured by Medicare Part A—hospital or hospice care—and usually also Part B—doctor and other health care providers’ services. Medicare also provides coverage under private plans through Medicare Advantage (Part C) and for prescription drugs (Part D). Because people require more health care coverage as they age, and their risk of chronic illness rises, the government typically spends much more on keeping older people healthy than younger people. Therefore, as a budget issue, the biggest health care problem is Medicare.

What Are the Sources of Government Health Care Expenses?

US federal, state, and local governments together spend $1.14 trillion on health care each year. That accounts for about 24 percent of all yearly government expenditures. More than $1 trillion of these expenditures are for (1) health care for children, through the Children’s Health Insurance Program; (2) subsidies for those who cannot afford health care on their own through ACA exchange subsidies; (3) Medicaid; and (4) the elderly via Medicare (Figure 2).

Of these four primary groups of health care recipients through public spending, the elderly receive by far the most government health care assistance. Medicare accounted for over 60 percent of government spending on health care in 2017. To clarify, not all Medicare recipients are over the age of 65—1 in 6 beneficiaries in 2011 qualified for coverage before turning 65 due to a permanent disability.

The government pays for health care through payroll taxes, general revenues, beneficiary premiums, and interest on the Medicare trust funds. Much of this money is funneled through those Medicare trust funds, including the Hospital Insurance (HI, covering Medicare Part A) Trust Fund and the Supplementary Medical Insurance (SMI, covering Medicare Part B) Trust Fund.

You may note a big absence in the above pie chart: where is the Affordable Care Act (ACA, or colloquially, Obamacare)? The ACA is a topic of kitchen-table discussions across much of the country, with strong opinions on both sides of the issue. The general point of the ACA was to get health care to those who do not have it—most of whom are working but make too little money to contribute to their own health insurance and too much money to qualify for Medicaid. The ACA expanded health care coverage by broadening Medicaid to include between 22 million and 32 million additional Americans under its reach. It also added health care subsidies and broadened the marketplace for health insurance.
The ACA does little to influence government debt-service expenses, however, for two main reasons:

1. It was designed to be paid for, and for the most part that promise has held up. Cuts in Medicare spending and tax increases cover the cost.

2. It has not perceptibly reduced the growth of health care costs, as some had hoped it would. Therefore, the ACA is not a central issue when it comes to the debt, but it is a huge player in health care and therefore will inevitably be affected if the government works to reduce health care expenses.

**There’s a System in Place, Right, So What’s the Problem?**

Where to begin? To bring some order to the problems, and for the sake of keeping this short, let’s separate the issues with the US health care system into two main areas: the ever-increasing age of the average US citizen, and the ever-increasing cost of the average health care bill.

**The Ever-Increasing Age of the US Population**

The US is experiencing significant demographic change. People 65 and over will become a greater and greater proportion of the total population (Figure 3), even outnumbering people under the age of 18 by 2035. This occurs both because the oversized baby-boom generation is turning 65 and because Americans are on average living longer. It means that there will be both relatively fewer US workers contributing to the HI and the SMI trust funds and relatively more Americans dipping into them. The number of workers per beneficiary will decline from 3.1 in 2015 to 2.4 in 2030.

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Figure 3

**65 Years and Over Residents as a Percentage of Total Population**

Source: US Census Bureau (2012)
According to the Centers for Medicare & Medicaid Services (CMS), the Medicare trust fund will be depleted as a result; its projected **insolvency date** is 2029. Medicare will still be able to pay some of its bills without the trust fund, through payroll taxes. But the law prohibits Medicare from paying benefits in excess of the balance in the trust fund (which will be zero as of 2029) and payroll tax revenues. So, if the government will be able to pay only **88 percent** of its hospital costs, the health care of seniors and the disabled will be at risk—just like you charging $100 to your debit card when you only have $88 in the bank. The government needs to adopt fiscally responsible practices so that it can pay its bills and maintain Medicare and other priorities.

**The Ever-Increasing Cost of Health Care**

As if those problems weren’t enough, health care is increasingly expensive, and that trend will continue.

If you can believe it, the average cost per person for health care was just $146 in the 1960s. In 2016, the average cost of health care per capita in the US was an astounding $10,345 (See Figure 4). Even adjusting for inflation, the costs are **nine times** higher now than they were then. Though the value of the dollar is weaker now than it was in the 1960s, Americans are still spending significantly more—nine times more—of their hard-earned money on health care than they did in the midcentury. That trend cannot continue forever; we must “bend the health care cost curve” before those rising costs overwhelm the federal budget—and household and business budgets too.

To be sure, health care is far better today; if you had a serious illness, would you choose to get 1960s health care, even at lower 1960s prices? But that is of limited comfort. Beyond advancing technology, again, Americans are older on average than they were in the 1960s and therefore need more care. At current trends, the amount that doctors and hospitals charge for this improved care is becoming unaffordable for many.

**Figure 4**

*National Health Expenditures (Per Capita)*

Source: CMS (2018)
The US is an outlier in its health care spending. The median total health care spending per capita for OECD nations was just $3,661 in 2013. The US in that same year spent an average of $9,086 on health care—nearly two and a half times the median amount of all OECD countries and 17.1 percent of GDP. Compare that with France, which spent 11.6 percent of GDP, and the UK, at 8.8 percent.

And, who is really paying these high bills? You guessed it—the government. Which means, of course, all of us. In 2015, those actually going to the doctor in the US paid just 11.1 percent of their health care bills out of pocket, with another 40 percent paid through insurance, funded by workers and employers. This left the government picking up the remaining 49.4 percent of the check.

You may say, “Americans go to the doctor a lot, and that’s why it’s costing so much.” But that’s not true! People residing in the US go to the doctor slightly less frequently than do residents of other countries.

And rising prices are not all about higher quality. The US is the world leader in “heroic care,” to be sure; if you are badly ill, you are happy to get your care here. But despite being the country that spends by far the most on health care per capita, the US does not rank number one in terms of actual health outcomes. Nowhere near, in fact. In short, the money spent has very little correlation with the quality received.

**Now That We Understand the Problems, What Can We Do to Fix Them?**

Fixing a broken health care payment system—with costs growing unsustainably, faster than our income—is no easy task. If it were easy, we could all assume—or at the very least, hope—it would have been done by now.

As is the case with our larger debt problems, there are several ways to go about fixing the issue. In fact, these solutions look quite a bit like the solutions proposed in Part II: raise taxes on those who can afford to pay, fairly and efficiently; decrease the cost of government health care subsidies; allow for more immigration to increase the number of workers contributing to the health care pot; or, most likely, some mix of all.

The silver bullet—if we can develop it—would be a health care system that delivers the current quality of care or better at a lower cost. CED has done considerable work to try to find this solution, and we believe the nation could do much better than it is doing now.

This series is not intended to push one solution. We at CED only want to emphasize that with the debt growing faster than our economy, and with demographic trends aggravating the looming debt burden, something’s got to give. An essential way to address impending debt problems is to improve the expensive health care system. As Americans, we believe that health care, to some extent, is a right. We will not accept denying health care to those who need it. Therefore, our leaders must look for solutions that will make health care more efficient and accessible in the future, even as the demand on the system continues to grow. If we do not, “universal coverage” might prove to be an empty promise.