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OFFICE OF TECHNOLOGY ASSESSMENT ■ U.S. CONGRESS

# REPORT *brief*

Available  
estimates  
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comparable

**T**he increasing number of uninsured people as well as people financially at risk, combined with the increasing portion of our Nation's economy devoted to health care, has resulted in intense debate over reform of the health care system in government and in the private sector. In **An Inconsistent Picture: A Compilation of Analyses of Economic Impacts of Competing Approaches to Health Care Reform by Experts and Stakeholders**, the Office of Technology Assessment examines available analyses of the anticipated impact of selected approaches to health care reform—Single Payer, Play-or-Pay, Individual Vouchers or Tax Credits, and Managed Competition—on:

- national health care spending and savings;
- Federal, State and local budgets;
- employers;
- employment;
- households;
- other costs in the economy; and
- administrative costs.

The report is part of the OTA assessment *Technology, Insurance, and the Health Care System*, and was requested by Senator Ted Stevens of Alaska, a member of the OTA Technology Assessment Board at the time of his request. The report is not a detailed critique of the analyses discussed, nor does it provide an independent OTA assessment of the economic impacts of the selected health care reform approaches or proposals. The estimates provided are those reported in the analyses without adjustment.

## MAJOR CONCLUSIONS

**B**elow is a brief synopsis of the report's major conclusions:

- Policymakers should be aware of the fact that the analyses of the health care reform approaches and proposals and, thus, the resulting quantitative estimates, are not comparable to one another. Therefore, policymakers should be wary of giving too much credence to any one analysis or estimate of an approach to health care reform, of comparing various analyses or estimates of an approach, and of comparing economic impacts across approaches.
- While the selected approaches to health care reform may be grouped together under the names Single Payer, Play-or-Pay, Individual Vouchers or Tax Credits, and Managed Competition, significant differences in specific proposals exist within as well as across these categories. The name of any one approach is not sufficient to alert policymakers—or the public—to how the approach deals with all key factors.
- Regardless of the approach to health care reform, the only way analysts appear to have been able to project savings in national health expenditures is by assuming one or more of the following:
  - a cap on total health expenditures at a certain level and/or provider price controls;
  - that the approach will not provide universal coverage or will provide universal coverage but will substantially cut back on the scope or depth of coverage;

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- that strikingly high levels of savings can be derived from restructuring the institutions and processes related to health care delivery (e.g., from managed care and/or administrative savings).
- The reasons proposals, or analyses of them, need these assumptions to achieve savings are that:
  - increased availability of coverage will likely increase the use of, and the total amount spent on, health services; and
  - administrative reforms alone are not likely to save enough money to expand coverage, especially to those people who are currently uninsured.
- There is a startlingly wide range of estimates of the impact of the selected approaches to health care reform on the areas of the economy examined. For example:
  - Estimates of the impact of Single Payer approaches on national health care spending and savings in a single year (1991) range from \$21 billion in increased spending to \$241 billion in savings.
  - Estimates of the impact of Managed Competition approaches on national health care spending and savings in a single year range from increased spending of \$47.9 billion (in the year 1993) to savings of \$21.8 billion (in the year 1994).
  - Estimates of the impact of Play-or-Pay approaches on households in a single year range from increased spending of \$2.3 billion (in the year 1993) to \$19.3 billion in savings (in the year 1990).
  - With respect to the impact of a Play-or-Pay approach on employment, one esti-

mate suggested that 25,000 to 50,000 low-income workers might be displaced but others suggest much greater employment losses, for example, 710,000 jobs lost in the first year of plan implementation.

- OTA urges policymakers to request detailed information about the assumptions used by the analysts in their studies in order to avoid making inappropriate comparisons. Many analyses are based upon proprietary analytic models so that policymakers may not have all the relevant information available to them.
- Policymakers should resist using estimates when they are provided for only 1 year, usually the first year of plan implementation.
- Policymakers should also be wary of making comparisons among approaches by looking only at their anticipated impact on discrete areas of the economy (e.g., Federal, State and local budgets; employers; administrative costs). Instead, policymakers need to look at all areas of the economy simultaneously and in relation to one another. While a reform approach may increase spending in one or more areas of the economy, it may decrease it in one or more other areas.

## KEY QUESTIONS FOR POLICYMAKERS

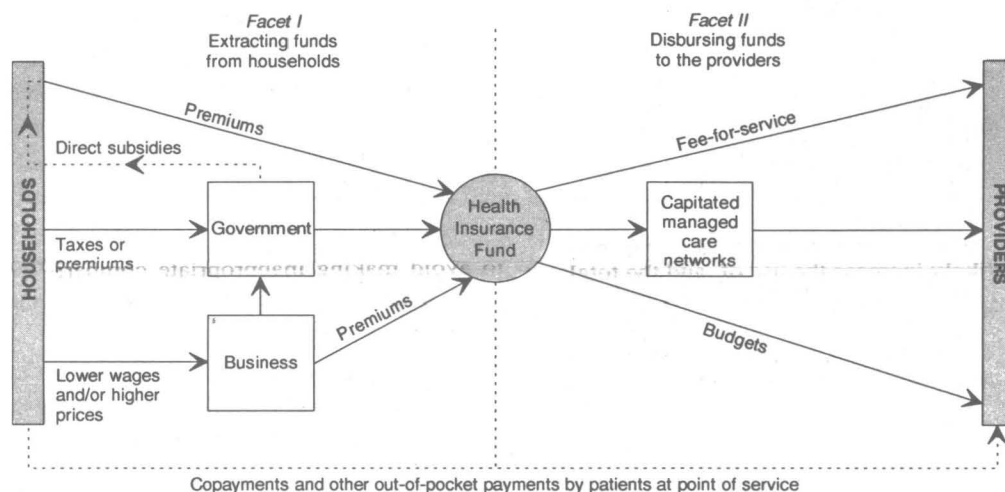
In light of the variety of competing estimates and the difficulty that policymakers may face in their efforts to make sense of them, OTA has identified the following key questions that may help policymakers understand why the results of analyses of competing approaches differ.

The Office of Technology Assessment (OTA) is an analytical arm of the U.S. Congress. OTA's basic function is to help legislators anticipate and plan for the positive and negative impacts of technological changes.

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## Flow of funds to and from areas of the U.S. economy

The two facets of health care financing



Adapted from figure developed by Uwe Reinhardt, 1993. A version of this figure appeared in *Health Affairs* 12 (Supplement): 174, 1993.

*What assumptions does the analysis make with respect to access to health care coverage and/or services? For example:*

- Are individuals required to obtain health benefits coverage or does coverage remain voluntary?
- If the proposal would provide universal coverage, what would the scope and depth of benefits be?
- What is the premium amount or actuarial cost of coverage?
- What level of health care utilization is assumed for people who are currently uninsured and for those who currently have public or private insurance?

*What assumptions does the analysis make with respect to controlling national health expenditures?*

- How are national health expenditures defined in the proposal?

- What is the baseline year used for estimating any quantitative impact of the proposal?
- What is the baseline amount of national health expenditures used to estimate the impact of the proposal on national health care spending or savings?
- Does the proposal assume the implementation of health care cost controls (e.g., a national health budget)? If so, are these limitations enforceable?
- Does the proposal assume savings from insurance market and paperwork reforms? If so, are these savings reasonable?

*What assumptions does the analysis make with respect to the redistribution of the burden of financing health care?*

- Does the proposal assume a limit on the tax deduction or exclusion for employer-sponsored health insurance benefits or a limit

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on an individual tax credit? If so, does it assume changes in individual and corporate behavior due to these limits that affect health care spending, and are these effects reasonable?

- Does the system require the collection of new funds by the Federal Government in order to implement the proposal? If so, what methods are assumed to raise these revenues and who will be affected? Does an estimate of "budget neutrality" assume no problems in collecting these revenues?
- Do some or all employers take on new obligations with respect to health care financing or are they relieved of present ones? Is there a "cap" on employers' liability? What is the relative impact on the obligations of employers by size, by industry, or by geographic region?
- What is the ultimate or total cost—direct payments plus indirect payments—to households for health care coverage and/or services? And what is the distribution of these expenses among households by income level?

*What assumptions does the analysis make with respect to the delivery of health care?*

- Is a specific mode of delivery, with particular assumptions about projected changes in the costs of care, required by the proposal? (For example, does the proposal assume universal or near-universal enrollment in group- or staff-model health maintenance organizations?)

*What general operational assumptions does the proposal make?*

- What is the phase-in period, if any, for the proposal, and are any adjustments made in the estimates for the phase-in period?
- Are the transition costs from the current system to the new system included in the estimates of spending and/or savings?

*What background information regarding the development of the approach, proposal and/or analysis is provided?*

- On whose behalf was the analysis prepared, following which rules, with what level of transparency?

Possible effects of alterations of these factors are addressed in OTA's report.



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