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Sarah Georgeau Bernheisel
Western Michigan University, sbernheisel20@gmail.com

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The Financing and Reform of the United States Healthcare System

Sarah Georgeau Bernheisel

The Problem

Imagine you've just graduated with your bachelor's degree. You are twenty-four years old and share an apartment with two friends. You work at the same pizza place you did while in college, waiting to hear from the places to which you've applied to since graduation. You are just making ends meet until getting into a car accident on your way home from a friend's house.

Though the injuries aren't life threatening, they require an ambulance ride and a few days stay in the hospital. Since you are twenty-four, you are no longer covered under your parents' health or auto insurances and are currently without insurance. With just a few cuts and bruises remaining, you receive a hospital bill in the mail for the uninsured amount of $10,000. With rent, and bills to pay, and a low paying job, how are you going to afford that? Do you move back in with your parents? Do you put your dreams on hold to pay the hospital bill? Do you wait to get your life started until the bill is paid down? Do you file for bankruptcy?

Now, imagine being a single parent of three children, ages three, five and nine. You work full time at a local grocery store, where you make a little over minimum wage and have a mediocre healthcare plan. You are diagnosed with a life threatening disease. After all of the doctor's visits, the treatments, and time away from work, you start getting bills in the mail for what the insufficient health insurance didn't cover. The amount is approximately $35,000. With three children to feed, rent and other bills to pay, weakened health, and a low paying job, what would you do? Do you get behind on your other bills to pay the hospital bill? Do you get evicted because your bills are delinquent?

Do you take another menial full-time job, further sacrificing your health and any time spent with your children?

Finally, suppose you are sixty-five and newly retired. The job from which you retired provided a reasonable retirement package, but no health insurance, because you qualify for Medicare. Shortly after the retirement parties end, you begin to feel a pain in your stomach. The pain you feel leads to surgery. However, complications put you in the intensive care unit for four weeks. After a full recovery, you walk out with a bill for $100,000 after Medicare paid its portion. With your retirement package and savings account drained by legal judgments and collection agencies, what do you do? Do you finish emptying your accounts? Are you able to get your old job back? Do you take a second job to pay the hospital bill?

These scenarios may seem far-fetched, but for many in the United States, they are a terrifying reality. Many hard-working Americans face these situations every day. You just get started in life and you get stepped on; you create a family and you are knocked down; you finally get to enjoy retirement then you loose everything and you have to go back to work!

The Facts

Robert Pear reported in his article in the New York Times in 2004, "Health care spending accounted for 10.9 percent of the GDP in Switzerland, 10.7 percent in Germany, 9.7 percent in Canada and 9.5 percent in France…" (Pear par. 16). Last year, the United States spent approximately 16.9 percent of its gross domestic product (GDP) on healthcare. In addition, the United States is the only fully industrialized country that doesn't include healthcare as a right for all of its citizens (Hartmann 155).

According to the National Center for Health Statistics, approximately forty-five million people in the United States, including nearly nine million children, were without health insurance in 2007 ("Fast Stats A to Z" 1). Additionally, in 2007, nearly 30% of young adults, ages 18-24, in the United States were uninsured ("Income, Poverty, and Health Insurance Coverage" 22). Sadly, none of these figures includes the countless individuals who have insufficient healthcare coverage caused by their high out-of pocket costs compared to their wages.

Furthermore, although the United States spends the greatest percentage of its GDP on healthcare, compared to any other country, it doesn't have the highest quality healthcare system in the world. For instance, Thom Hartmann wrote in his book, " The United States ranks twenty-fifth in the world in life-expectancy, infant mortality, and immunization rates" (Hartmann 155). It is quite a failure for a country to spend approximately $2.4 trillion dollars on healthcare annually and not be number one in the world in nearly every category related to health.

The Solution

With all of this health related tragedy and despair in America, there are potential solutions to these problems. The solution may be a single payer national healthcare system. Changing the way we deliver and pay for health care could also make it more effective, and cost efficient, by reducing administrative costs, establishing electronic medical records, coordinating care, creating wellness programs, and applying sufficient copayments.

A single payer health care system is a program in which the government essentially becomes the national insurance company for all American Citizens. The payment of healthcare expenses would come from a single, non-profit fund, which would replace individual insurance premiums, from a national tax base that would insure all Americans in one risk pool. The often touted, 'patient / physician relationship', has for many people, deteriorated to a purely economic relationship based strictly on the patient's ability to pay (qtd. in Cooper par. 10). Hopefully, with the establishment of a single payer system, this relationship would begin to mend.

Cost Effectiveness is Key

The object of a single payer system isn't just to pay for our existing medical structure, but also to rehabilitate it and make it more cost effective. There are many systems that could be implemented, saving American's billions of dollars each year. The greatest benefits would be realized by restoring the 'patient / physician relationship' by eliminating the economic burden imposed by insurance companies and barriers of unwarranted administrative interference.

By taking active steps towards establishing a single payer system, a substantial reduction in administration costs would be immediately realized. Administrative costs would decrease because there would be only one non-profit, 'insurance entity' to deal with, therefore it would remove any excessive management that drives up costs and creates unnecessary paperwork. Furthermore, by having a single source to bill, it would streamline medical billing and drastically reduce healthcare costs. A study in the New England Journal of Medicine concluded that 31.0% of health care dollars in the United States were wrapped up in administrative costs in 1999, compared to only 16.7% in Canada (Woolhandler, Campbell, and Himmelstein 768). Granted, it is necessary to have administrative staff, but one can agree 31% is excessive, if Canada can do the same job at nearly half the cost. The bright side is this cost can be cut by approximately 14% or more with the establishment of a single payer system. This 14% savings amounts to roughly $337 billion dollars a year ("The Path to a High Performance U.S. Health System" par. 22).

However, there are other ways to reduce healthcare costs, which could be used in addition to a single payer system. Reforming the current medical model to include the use of electronic medical records would save money and save lives. Coordination of care between providers would harmonize and maintain continuity of care by breaking down the partitioning of services, often perceived by patients as a vending machine health care system (Lee and Lee 487). Education involving self-care, disease prevention, disease management, and behavior modification could reduce medical expenses throughout the country (487). Wellness programs would avoid unnecessary hospital admissions, and reduce the severity of conditions caused by neglect, or reluctance to seek care for economic reasons (487). Creating appropriate co-payments would allow the patient to influence the cost of his own care and create greater savings for Americans (487).

Another method of reducing healthcare costs is to invest in the establishment of electronic medical records in hospitals, private practices and medical clinics. Electronic medical records are a digital form of a patient's medical history, which can include charts, test results, diagnoses, prescription information, and physician's notes. Switching from paper records to digital records would cut down on wasteful administrative duties, reduce medical errors, and reduce test duplication, all the while improving scheduling, and billing. The capacity of electronic medical records is almost limitless. A top researcher in health information technology, Richard Hillestad, testified in front of the Senate Finance Committee and said that by implementing electronic medical records in at least 90% of hospitals and practices, it could save $80 billion dollars a year (Hillestad 3).

The third way to reduce United States healthcare costs would be to insist on coordination of care between providers in separate practices (Lee and Lee 487). Patients are referred to new physicians all of the time, but don't always have the documentation that the new physician needs when they are seen. Therefore, the new physician orders tests on a patient that may have been done at the previous practice. If health professionals synchronized the care of patients, the time and money wasted duplicating tests would be saved. One way to establish this coordination would be to extend the electronic medical records to a national level and allow health professionals all across America access to their patient's medical records, but only if they had proper consent.

Another approach to saving healthcare dollars is to educate people on disease prevention, behavior modification, and disease management (Lee and Lee 487). By creating programs that inform people of ways in which they can improve their quality of life, the instance of chronic illness decreases and therefore reduces the cost of healthcare. Furthermore, if healthcare professionals assist their patients to make better personal choices, they can reinforce the concept of wellness. In addition to these programs, a penalty system for non-compliant patients would be put in place to deter chronically ill patients from choosing to ignore their physician's treatment strategy. By enforcing this penalty system, physicians could prevent their chronically ill patients from further driving up the cost of healthcare.

Millions of dollars could be saved if unnecessary hospital admissions and emergency room visits were prevented (Lee and Lee 487). A medical triage system, that segregates true emergencies from minor clinical problems, could open emergency access to life saving resources, and save billions on inappropriate emergency services. One way to determine the need of patients is to allow for an on call type of service at family physicians in case of a suspected emergency, where patients could call a physician and get their advice. Also, another way to prevent unnecessary admissions and visits is to create appropriate copayments (Lee and Lee 487). A copayment would need to be large enough to prevent people from using an emergency room service for an inappropriate ailment such as a cold, but not so costly to deter them from using it if warranted. With all of these changes and adaptations to our current medical model, there is little doubt that it couldn't be improved, while still savings billions of dollars.

How to Fund the Single Payer System

In order to fund a single payer system in the United States, a new tax system would be established for businesses and citizens, while taking into consideration the savings from reduced administrative costs and the establishment of electronic medical records. The amount that needs to be supported by the tax system is proportional to the gross domestic product spent on healthcare costs in the preceding year to the creation of the single payer system (Woolhandler et al 106). In this case, the tax system and adjustments made by fixing our current model needs to support approximately $2.4 trillion dollars.

First and foremost, one must subtract the amount saved due to reduced administrative costs and the addition of electronic medical records from the total cost of healthcare, resulting in $1.983 trillion dollars owed by the tax system[1].

Secondly, to ensure that businesses reinvest their money into their employees, a tax on the amount that the business was previously paying would be established. This tax would be set at 75% of the amount that employers were currently paying. The company would essentially be saving 25%, while still benefiting their employees. For companies that didn't previously provide health insurance for their employees, a progressive tax on its profits would be put in place to make the system fair across the board.

In 2007, 59.3% of Americans were covered by employer-based insurance ("Income, Poverty, and Health Insurance Coverage" 19). Furthermore, in 2008, the average cost of single healthcare coverage was $4,704 per person ("Employer Health Benefits 2008 Annual Survey" par.1). By multiplying the population of the United States, which according to the World Fact Book, in July 2008 was approximately 303.8 million, by the percentage of people who receive employer-based insurance (59.3%), one comes up with over 180.2 million people who receive insurance through their company ("The World Fact Book"). To determine the amount of money paid by businesses into the tax system, one takes the average cost of single healthcare coverage ($4,704) and multiplies it by 75%, then multiplies that number by the amount of people with employer-based insurance (180.2 million). Based on the figures above, the amount that would be paid by businesses would be nearly $636 billion[1]. Furthermore, due to

[1]See Appendix A for Calculations

inflation, the amount the company pays would need to be adjusted once an analysis of the market was complete after a set number of years. By reducing the administrative costs, implementing electronic medical records, and adding a business tax, Americans would save over $1.05 trillion annually[1]!

To cover the remaining cost of healthcare in the United States, a tax on citizens would be put in place to fund the single payer system. Finally, to determine the percentage increase in federal income tax per citizen, one must first subtract the contribution from businesses ($636 billion) from the adjusted cost of healthcare ($1.983 trillion), which equals $1.347 trillion. One must then take this total amount still owed and divide it by the total GDP of the United States. According to the U.S. Bureau of Economic Analysis, in the fourth quarter of 2008, the GDP was $14.2 trillion ("Gross Domestic Product" par. 15). Therefore, the percent increase per citizen is approximately 9.5%[1].

Taking into account the contribution from the business tax, this 9.5% increase essentially represents the percent GDP that would account for healthcare spending in the United States. This value is comparable to what Switzerland (10.9%), Germany (10.7%), Canada (9.7%), and France (9.5%) pays each year (Pear par. 16).

In addition to the business tax and reductions in healthcare costs, other taxes could be put in place to reduce the amount each citizen pays. For example, larger taxes on cigarettes, alcohol, and fast food could increase the revenue to fund the single payer system and provide relief for citizens. These are just a few ways to further reduce the burden that may be felt by citizens.

[1]See Appendix A for Calculations

Opposition & Limitation

Although, creation of a single payer system may be the solution to America's healthcare predicament, there would be some limitations and opposition to the program. One limitation to starting this program is the cost of implementing electronic medical records. This technology isn't extremely expensive, but it does come with a cost. Therefore medical clinics that are considered low-profit may not be able to afford it without government assistance. This government assistance comes from taxpayers, who would already be paying for their portion of healthcare.

Another limitation to a single payer system is the effect an increase in taxes would have on taxpayers. The wealthy would be paying the largest portion into the single payer system, while the poor would be paying the least. However, in an ailing economy, everyone would have to tighten his or her budget a little. Some might argue that a person making $100,000 a year and paying $9,500 annually in increased tax compared to someone making $20,000 a year and paying $1,900 annually is considered unfair.

Furthermore, the adaptation to this single payer system would raise some opposition from politicians and from businesses. Politicians are reluctant to speak publicly about raising taxes for fear of losing popularity and support, even if it is for a common good. Politicians never want to be seen as being responsible for raising taxes. Additionally, some businesses may oppose any tax, especially in a depressed economy. Business exist to make a profit and the less the company is taxed, the larger the profit.

Closing Words

Despite hurdles that would inevitably slow the process down, the solution to America's healthcare crisis may lie in a single payer system and modifications within our current methods of practicing medicine. With a 9.5% increase in taxes, every citizen, from birth to death, would have health insurance regardless of current employment status, age, health condition, or any other deterring factors. As our current system becomes more efficient and applying other taxes on unhealthy goods, the percent each citizen pays should decrease. It is possible to make a single payer system affordable and this proposal outlines the way. By creating a single payer system and fixing our current medical practices, the United States could provide every citizen health care and a better life.

Appendix A

1. Calculation for savings from reduced administrative costs and electronic medical records:

$2.4 trillion spent on Healthcare in 2008
$337 billion saved from reduced administrative costs
$80 billion saved by establishing electronic medical records

$2.4 trillion-($337 billion+$80 billion)= ~<u>$1.983 trillion Owed by Tax System</u>

2. Calculation for establishment of business tax:

75% Tax on Business
59.3% of Americans with Employer-based Insurance
303.8 million Americans in July of 2008
$4,704 average cost of single healthcare coverage in 2008

303.8 million x 0.593=180.2 million Americans with Employer-based Insurance

($4704 x 0.75) x 180.2 million= ~<u>$636 billion contributed by businesses</u>

3. Calculation for amount saved by reducing administrative costs, implementing electronic medical records and by adding a business tax:

$337 billion saved from reduced administrative costs
$80 billion saved by establishing electronic medical records
$636 billion contributed by businesses (from calculation 2)

$337 billion + $80 billion + $636 billion = ~<u>$1.05 trillion saved by reducing admin. costs electronic medical records, and by adding a business tax</u>

4. Calculation for establishment of citizen tax:

$1.983 trillion owed by tax system (from calculation 1)
$636 billion contributed by businesses (from calculation 2)
$14.2 trillion total GDP of US in 2008

(($1.983 trillion- $636 billion)/$14.2 trillion) x 100= <u>~9.5% increase per citizen</u>

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