US Economic Condition & Healthcare Reform

• **Purpose**
  - Provide **latest update on the economic context** of healthcare reforms
    • Background
    • Current status
    • Future options
  - Summarize **key financial features of healthcare reforms in the current economy**

US Economic Condition & Healthcare Reform

• **Context**
  - The **Western World** is aging-out
  - Elderly ratios **highest** in the world
    - (Age 65+ / Ages 15–64)*100
      - World ave.: 13.3
      - USA: 23.5
      - European Union: 30.5
      - Japan: 45.0

US Economic Condition & Healthcare Reform

• **Context**
  - WW II Concratation dying at **1,000 / day**
  - Baby-Boomers turning 65 and joining Medicare at **10,000 / day**
    • Multiplying the drawdown on Medicare & Social Security by **10:1** every day!
    • Boomers **90%** of Medicare enrollees by 2030
      • Born 1946–1963
**US Economic Condition & Healthcare Reform**

- **Context**
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- **Silver Tsunami Peaks**
  - 1946 – 1963 (18 yrs.)
  - 1964 – 1984 (22 yrs.)
  - 2011 – 2028 (18 yrs.)
  - 2046 – 2063 (18 yrs.)

- **On Medicare & Social Security for**
  - **55 yrs**.

- **2019 Work, work, work...**

- **U.S. Elderly Ratio**
  - (Age 65+ / 15–64) * 100

**The Silver Tsunami is Getting Closer!**

- **Elderly Ratio By Developed Countries**
  - (Age 65+ / 15–64)
  - Japan: 45.0
  - Germany: 32.8
  - France: 31.7
  - UK: 29.0
  - Canada: 25.4
  - Australia: 23.7
  - New Zealand: 23.6
  - USA: 23.5
  - Russia: 20.8
  - China: 14.8
  - World: 13.3

Source: Adapted from [https://data.worldbank.org/indicator/SP.POP.DPND.OL?end=2017&start=1960&type=points&view=chart&year_high_desc=true](https://data.worldbank.org/indicator/SP.POP.DPND.OL?end=2017&start=1960&type=points&view=chart&year_high_desc=true)
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• In contrast: the growing developing world
  – Elderly ratios lowest in the world
    • Turkey: 12.2
    • South Africa: 8.1
    • Iran: 7.7
    • Iraq: 5.0
    • Nigeria: 5.2
    • Saudi Arabia: 4.6
    • UAE: 1.3

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Elderly Ratio
By Developing Countries
(Age 65+ / 15–64)*100

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• Creating an international healthcare crisis
  – The same regardless of country or social system
    • Unlimited, increasing demand, in the face of
    • Limited resources
    • Resources have to be allocated somehow
      • Every country tries a different way
        • All have their problems
    • Economics: the “Dismal Science”
      • Optional solution is where everyone is equally unhappy!
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**Key Definitions:**

- **Deficit**—government’s net *loss for one year*
  - “Off-budget”—Social Security & Post Office
  - “On-budget”—all else
    - The Congress can change designations
- **Debt**—money government *borrows*
  - Loans, used to:
    - Pay bills (*i.e.*, cover the deficit)
    - Expand money supply

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**Sources of Debt Financing**

- **Public** debt—loans from
  - General public
  - Foreign governments, mostly
    - China $1.2 tr.
    - Japan $1.0 tr.
  - Usually reported in the media

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**Foreign Holders of US Publicly Held Debt**

*July 2018*

- United Kingdom 4%
- Singapore 3%
- Japan 16%
- China 17%
- All Other 35%
- Switzerland 4%
- Cayman Islands 3%
- Luxembourg 4%
- Israel 5%
- Hong Kong 3%
- Saudi Arabia 3%

*About 40% ($6.3 tr.) of our $15.0 tr. in nominal public debt is owed to foreign creditors—mostly China & Japan.*

*Source: Department of the Treasury/Federal Reserve Board, Sept. 18, 2018.*
Key Definitions:

- **Government debt**—loans from:
  - Other US government agencies
  - Non-marketable
    “Certificates of Indebtedness,” Congressional IOUs
  - Backed by the “full faith and credit of the U.S. Congress”

**Sources of Debt Financing**

- Largely borrowed $6.2 tr. from:
  - Medicare Trust Funds
    - Hospital Insurance (HI)
    - Supplementary Medical Insurance (SMI)
  - Social Security Trust Funds
    - Old-Age & Survivors Insurance (OASI)
    - Disability Insurance (DI)
  - Not allowed to invest in stock market
  - Can only lend to other government agencies at interest

**Real US Federal Social Services Expenditures**

GDP Price Index Adjusted
(Base Year = 2018)

- Health
- Education
- Social Security
- Medicare
- Medicaid, CHIP, Other
- Unempl., Welfare, etc.
- VA Benefits
- Net Interest

Note: Inflation adjusted. Actual nominal dollars are $4.3 trillion.
Source: Historical Tables, Budget of the US Government, fiscal years 2018-2021.
**US Economic Condition & Healthcare Reform**

Tax Units with Zero Individual Income Taxes (FY 2017)

- Pay Tax, 57.3%
- Don’t Pay Tax, 42.7%

Sources: The Urban Institute and Brookings Institution, Tax Policy Center, 2018

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**US Economic Condition & Healthcare Reform**

Tax Units with No Tax Liability (FY 2017)

- Pay Tax, 57.3%
- Zero Net Inc. & Payroll Tax, 24.2%
- No Inc. or Payroll Tax, 15.6%
- Other, 2.9%

Sources: The Urban Institute and Brookings Institution, Tax Policy Center, 2018

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**US Economic Condition & Healthcare Reform**

Real US Federal Debt per Tax Return Filed

GDP Price Index Adjusted (Base Year = 2017)

- Debt per Tax- Paying Return: $237,879 in 2017

- 395% higher than WW-II

Source: US Internal Revenue Service, 2018

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% of State Revenues for Interest, Unfunded Pensions, Retiree Health Benefits and Defined Contribution Plans

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State Long-Run Solvency Index (2015)

Source: Mercatus Center, George Mason University, 2017.

US Economic Condition & Healthcare Reform

The Bailouts: Outflows ($631.4 b. as of Oct. 11, 2018)

- Banks & Financial Institutions $245.0
- Fannie & Freddie $191.0
- Other $10.1
- Auto Companies $78.7
- Mortgage Modification $19.2
- AIG $67.8
- Bad Debt ("Toxic Asset") Purchases $18.6

Note: Bailouts = Troubled Asset Relief Program (TARP) and separate Fannie Mae & Freddie Mac bailouts. Source: ProPublica, Oct. 11, 2018, https://projects.propublica.org/bailout/

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The Bailouts: Inflows ($728.5 b. as of Oct. 11, 2018)

- Repaid by Bailed-out Companies $390.3
- Dividends Received $307.0
- Fees & Sales of Stock or Other Assets $19.7
- Sale of Warrents Held on Cos. that Repaid $9.6
- Interest Earned $1.8

Outflows $631.4 b.
Inflows $728.5 b.
Net Gain $97.1 b.
US Economic Condition & Healthcare Reform

- Selected Obligations at Current Benefit Rates
  - $27.0 tr. US National Debt (2023 nominal dollars)
  - 61.6 tr. PV of Medicare (less premiums)
  - 47.3 tr. PV of Medicaid, CHIP & Other
  - 81.1 tr. PV of Social Security
  - 7.7 tr. PV of Fed. employee & VA ret. & health benefit
  - 26.7 tr. PV of 60 State Medicaid, unfunded pension and other post
    employment benefits
  - + 4.8 tr. Cost of renovating our 50–100+ year old infrastructure (roads,
    bridges, levees, dams, water, sewer, rail, schools, aviation, transit, etc.)
  - $256.2 tr. Obligations left to the next generation to repay.

  when they will have half the relative collective earning power when Medicare was started. (Dropping to 2.3 workers per retiree by 2030.)

US Economic Condition & Healthcare Reform

Selected Obligation Analysis

1. What is our net worth?

  Total household & NP org. net worth = $106.9 tr. (Q2 2018)

  $256.2 / $106.9 = 240%

  We owe nearly two and a half times our total net worth (including Bill Gates', Warren Buffet's, George Soros', and all NP foundations net worth).

2. How much do we make?

  $256.2 tr. in obligations divided over 126,224,000 households =

  $2,029,725 in obligations / household.

  Median household income = $61,372

  $2,029,725 / $61,372 = 33 years of income.

  The combined federal & state governments would have to tax away the entire median income of every household in America for the next 33 years in order to pay off just these obligations.

  Or alternatively, since under a 100% income tax all of the taxpayers would die of starvation in the first two weeks, maybe a: 50% income tax for the next 66 years would work better.

  That’s 13 years more than the time to get the boomers through the system...

US Economic Condition & Healthcare Reform

Selected Obligation Analysis

That is, we need $256.2 – $106.9 = $149.3 tr. more wealth than we have to meet these obligations!

That’s equal to almost the wealth of the entire world (except China):

<table>
<thead>
<tr>
<th></th>
<th>Wealth</th>
<th>Pop. (mm)</th>
</tr>
</thead>
<tbody>
<tr>
<td>China</td>
<td>$79,639</td>
<td>741</td>
</tr>
<tr>
<td>Europe</td>
<td>$55,052</td>
<td>1,776</td>
</tr>
<tr>
<td>Asia-Pacific</td>
<td>$8,197</td>
<td>639</td>
</tr>
<tr>
<td>Latin America</td>
<td>$4,987</td>
<td>1,339</td>
</tr>
<tr>
<td>India</td>
<td>$2,499</td>
<td>1,216</td>
</tr>
<tr>
<td>Africa</td>
<td>$159,254</td>
<td>5,711</td>
</tr>
</tbody>
</table>

Will they just hand us all of their wealth to support us in our nursing homes, while their own populations of 5.711 BILLION people starve? Not......

US Economic Condition & Healthcare Reform

Selected Obligation Analysis

That 50% tax rate for the next 66 years assumes all of the tax revenues would go to nothing else but paying off just these few selected obligations...

They are expected to consume 80% of the federal budget by 2030. Crowding-out all other government services, if not cut.

US Economic Condition & Healthcare Reform

Selected Obligation Analysis

- Do you want things like: operating our defense, schools, fire department, police, VA, transportation, water, sanitation, criminal justice system, and the multitude of other entitlements, grants, subsidies and programs in the federal budget...
- If we want all those too, the tax rate goes up from there...
  - Some economists estimate an 83%+ combined federal & state tax rate to meet these demands

US Economic Condition & Healthcare Reform

Observation:
- We have become the greatest debtor nation in the entire history of the world.

Sources, adapted from:
- American Society of Civil Engineers
- Budget of the US Government
- Credit Suisse Global Wealth Report
- Medicare Trust Funds Annual Report
- Mercatus Center, George Mason University
- ProPublica
- Social Security Trust Fund Annual Report
- US Census
- US Congressional Budget Office
- US Department of Commerce
- US Federal Reserve
- US Internal Revenue Service
- World Bank
- Other
US Economic Condition & Healthcare Reform

- The economic options:
  1. Raise taxes
     - New law cut taxes
  2. Cut benefits
     - ACA added $1.2 tr. entitlement program
     - Once the toothpaste is out if the tube, it’s awfully hard to get it back in!
     - Social Security, voting seniors most hurt
     - No one ever won an election by promising to “ Raise taxes and cut benefits”
  3. Grow the economy
     - Growing nicely, but would require sustained double-digit growth for decades
     - Which we’ve never had, while
     - Still recovering from the worst recession since 1930
     - And 30% of pop. retires out of the workforce

- The economic options:
  4. Default on payments
     - 2% Sequestration was effectively a default
     - For years, the Trustees have called for a 25% cut in benefit payments
     - Effectively a 25% default, if sequestered
     - So far, no takers

“Pay-as-You-Go” …or, not…

US Economic Condition & Healthcare Reform

- The economic options:
  5. Inflate the currency
     - Federal Reserve inflated the money supply by $3.2 tr.
     - “Quantitative Easing” (QE)
     - “Stimulus”
     - Dodged economic depression
     - Now starting to reel back in
     - Replaced money lost in mkt. crash
     - Nationalized private sector losses
     - Gave Federal gov’t. dollars it needed to pay it’s bills
     - And earning interest on the printed-up dollars!

Highest Denomination Bank Note in World History

Why have we not seen hyper-inflation?

Pizza-nomics!

Do you want your pizza cut into 6 slices or 8 tr.? 

And Raisin-omics!

2 Scoops.

Shrinking the unit of measure at the same rate as values drop, maintains constant prices, and averts panic.

They Shrunk the Scoop!
Civilian Labor Force Participation Rate

Source: Federal Reserve Bank of St. Louis, https://fred.stlouisfed.org/series/CIVPART#0, Oct. 5, 2018

Supplemental Nutrition Assistance Program (SNAP)

No. Persons Participating

As of Oct. 5, 2018

10-Year Change

<table>
<thead>
<tr>
<th>Year</th>
<th>Total 2008</th>
<th>Total 2018</th>
<th>% Increase</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>28,222,630</td>
<td>40,644,363</td>
<td>+44.0%</td>
</tr>
</tbody>
</table>

% of Population

<table>
<thead>
<tr>
<th>Year</th>
<th>Pop. 2008</th>
<th>Pop. 2018</th>
<th>% of Pop.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>304,093,966</td>
<td>328,796,286</td>
<td>12.4%</td>
</tr>
</tbody>
</table>

1 out of every 8 people!


Healthcare Reform: Key Financial Issues

- $1.2 trillion cost over 10 years
- Congressional efforts to repeal or replace all failed
  - Major challenge is the cost of retaining popular ACA features
    - Keeping kids on parent’s insurance through age 26
    - No pre-existing condition exclusions
    - Guaranteed insurability
    - No annual or lifetime caps
  - How to make current ACA policies economically viable for those who want to keep them

Healthcare Reform: Key Financial Issues

- Young & healthy population still a hard sell
  - Less expensive to buy a non-compliant health plan and pay the penalties
    - Penalties no longer enforced through IRS
US Economic Condition & Healthcare Reform

Healthcare Reform: Key Financial Issues

- **Insurance companies**
  - Higher costs
    - Minimum Loss Ratios
    - No Annual / Lifetime Limits
    - Guaranteed Insurability
      - Est. 52% (6.2 million) of 12 million exchange sign-ups previously uninsured
      - Only 15% of the 41 million uninsured population
    - Adverse risk self-selection
      - Only 26% Young & Healthy (age 18–34)
      - Still <40% target
    - Double-digit premium increases
    - Dropping-out of exchange market

- **2nd Lowest Cost Silver Plan**
  - Before Tax Credit
  - 2018–2019

- *Not finalized. Source: Adapted from Kaiser Family Foundation. Oct. 11, 2018*
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Healthcare Reform: Key Financial Issues

- ACA provided quality of care incentives
- Has done relatively little to
  - Reduce cost of care
  - Improve efficiency in delivery of care
- These are where reform is still very much needed

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Healthcare Reform: Key Financial Issues

- Executive Order on Religious Liberty
  (Signed May 4, 2017)
  - Directs Secretaries of:
    - Health & Human Services
    - Treasury
    - Labor
  - To expand exemptions from ACA requirement for birth control coverage, to
    - Nonprofit groups
    - Non-publicly traded companies
    - Higher education institutions
  - With sincerely held religious or moral objections
  - And make third-party provision optional
    - For groups with “sincerely held” religious beliefs

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Healthcare Reform: Key Financial Issues

- Executive Order on Healthcare
  (Signed Oct. 12, 2017)
  - Directs Secretaries of:
    - Health & Human Services
    - Treasury
    - Labor
  - To issue new regulations for increased:
    - Competition
    - Choice
    - Access to lower priced, higher quality options
  - At no net cost to the government

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Healthcare Reform: Key Financial Issues

- Allow more small business Association Health Plans
  - Under Federal employment law
  - Rather than State insurance law
  - Capitalization regulations will be needed
- Expand Association Plans across State lines
  - Compete with large employers for
    - Pricing
    - Benefits
Healthcare Reform: Key Financial Issues

- **Expand short-term plans**
  - From 3 mos., to 1 yr.
  - Not subject to ACA coverage mandates
  - Used between jobs
    - Low cost
    - Limited benefits
- **Allow more businesses to use tax-free**
  - **Health Reimbursement Arrangements (HRAs)**
    - Used by small business to reimburse employees for individual health
      - Premiums
      - Out-of-pocket costs

Insurance company **subsidies** never appropriated by Congress

- **6th Legal Challenge**
    - Allegation: Prior administration paid $175 billion in subsidies to health insurers without Congressional budget appropriation
    - Defense: Paid under other blanket appropriation authority
    - Allegation upheld by U.S. District Court in Washington
    - Prior administration appealed
    - Subsidies have continued in the meanwhile

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**Executive Order** (Oct. 12, 2017)
- Stopped subsidy payments
  - Until / Unless Congress specifically appropriates funding
  - Likely results:
    - Higher premiums
    - Exit the exchanges

**7th Legal Challenge**
- 1st US Supreme Court ruling on ACA, June 2012
  - Defined individual mandate penalties as a **Tax**
  - Upheld ACA under Congressional **Taxation** authority
    - **Not** the Interstate Commerce clause
    - Struck down the State Medicaid expansion mandate
Healthcare Reform: Key Financial Issues

7th Legal Challenge (cont’d)
- Tax Cuts and Jobs Act (TCJA), Dec. 2017
  - Eliminated individual mandate penalties, eff. 2019
  - 20 States have sued the federal government
  - Alleging that since TCJA eliminated the penalties
    - ACA no longer has its constitutional basis
- TCJA also nullifies 2 other major provisions linked to individual mandate
  - Pre-existing conditions coverage
  - Forbidding insurers to charge people in the same community different rates based on
    - Gender, age, health status or other factors
- Outcome is currently uncertain

One thing is certain—costs will escalate over time
- On an inflation-adjusted basis, Medicare today costs 3.651% more than its first full-year in 1967

No one understands these issues better than David Walker, former Comptroller General of the United States
- When asked what he plans to do, he replied:
  - “Well, my house is paid for,
  - I get a pension at full salary for life, just like a Supreme Court judge, and
  - I’m thinking about Vancouver, because New Zealand is too far away.”
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Any Questions?

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