



***Update on the
Economic Condition of the US and its
Relation to Healthcare Reform***

• **Dana A. Forgione, Ph.D., CPA, CMA, CFE**
University of Texas at San Antonio, College of Business
University of Texas, School of Medicine
University of Texas, School of Public Health

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US Economic Condition & Healthcare Reform

- **Purpose**
 - Provide **update on the economic context** for healthcare reform
 - Background
 - Current status
 - Future options
 - Summarize **key financial features of healthcare reform**

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- **Context**

- The *Western* world is dying
 - Death rate exceeds birth rate
 - USA: < 2 Babies / family
 - Western Europe: 1.5 Babies / family
 - Japan: 1 Baby / family
 - Populations growing through immigration
 - 7 US Workers per retiree dropping to 3 by 2020
 - Delay due to retirement funds lost in market crash
 - Medical / Hospital / LTC Utilization escalating
 - 1/3 of US Population on Medicare by 2030

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- The growing *developing* world
 - Rapidly accelerating population growth
 - 4 to 6 Babies / family
 - Increased demand for *costly* services
 - Healthcare
 - Education
- International Healthcare Crisis
 - The same regardless of country or social system
 - Increasing, **unlimited demand**, in the face of
 - **Limited resources**, combined with
 - Rapidly **escalating costs**

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Key Definitions:

- **Deficits**—the government's net income or loss for a year
 - “Off-budget”—Social Security & Post Office
 - “On-budget”—all else
 - Definition changes, per the Congress
 - “Surpluses” of late 1990's
 - Unexpected extra SSI tax collections
 - All off-budget
 - Refunded to taxpayers instead of SSI Trust Fund

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Key Definitions:

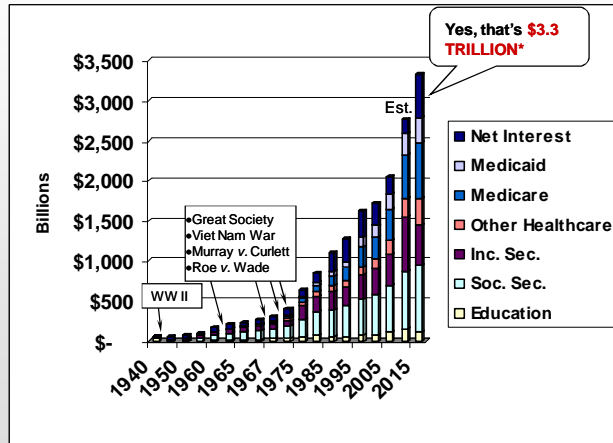
- **Debt**—money the government borrows
 - Public debt—loans from
 - General public
 - Foreign governments
 - Government debt—loans from
 - Other US government agencies
 - Medicare Trust Fund
 - Social Security Trust Fund
 - Spent on programs
 - Expected to be repaid from future tax collections

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Real US Federal Social Services Expenditures

GDP Price Index Adjusted
(Base Year = 2010)



* Note: Inflation adjusted. Actual nominal dollars are \$3.6 trillion.

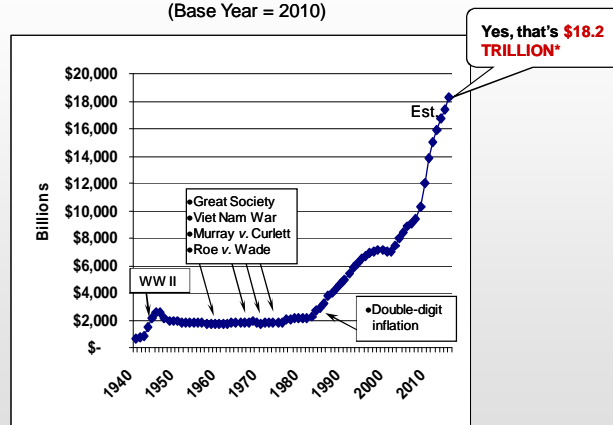
Source: *Historical Tables, Budget of the US Government, Fiscal Year 2011.*

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Real US National Debt

GDP Price Index Adjusted
(Base Year = 2010)



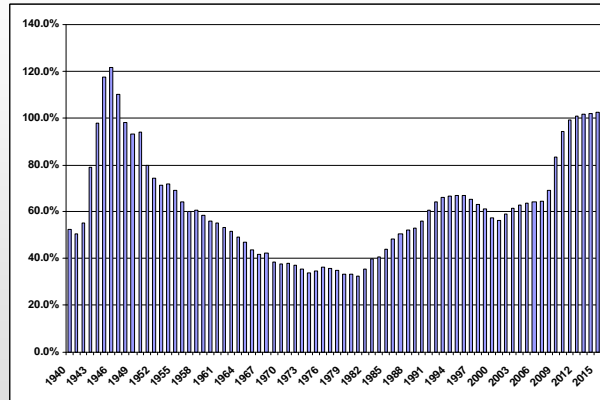
* Notes: Inflation adjusted. **Actual nominal dollars = \$19.7 tr.** Nearly 58% of the publicly-held debt was loaned by foreign investors in 2009—mostly China (23%). Does not include the additional \$8.5 tr. in debt-financed financial institution, automaker and other bailout costs (less recoveries), or the est. \$0.857 tr. in healthcare reform costs.

Source: *Historical Tables, Budget of the US Government, Fiscal Year 2011.*

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US Federal Debt to GDP

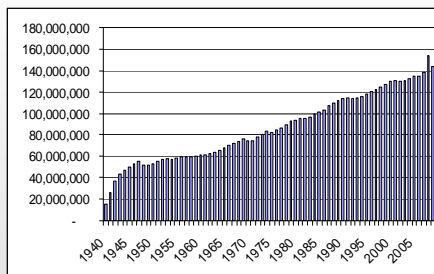


Source: *Historical Tables, Budget of the US Government, Fiscal Year 2011.*

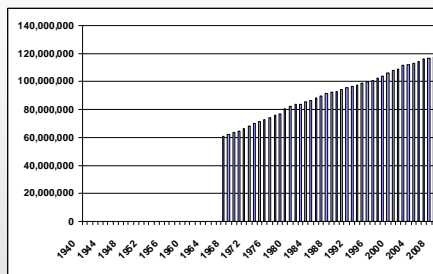
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Number of Tax Returns Filed



Number of Households



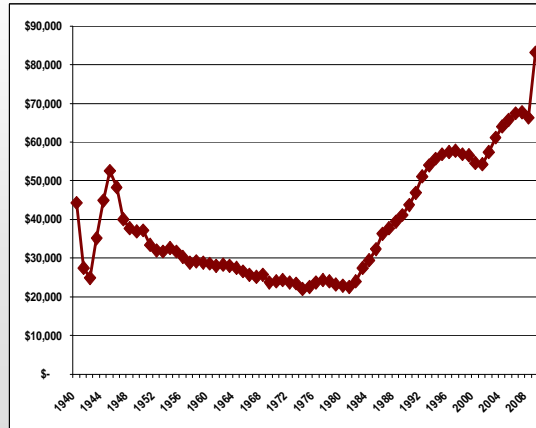
Only about half of the filers pay taxes. The rest have no tax liability or receive the earned income credit.

Sources: US Internal Revenue Service; US Census.

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**Real US Federal Debt per
Tax Return Filed**
GDP Price Index Adjusted
(Base Year = 2010)

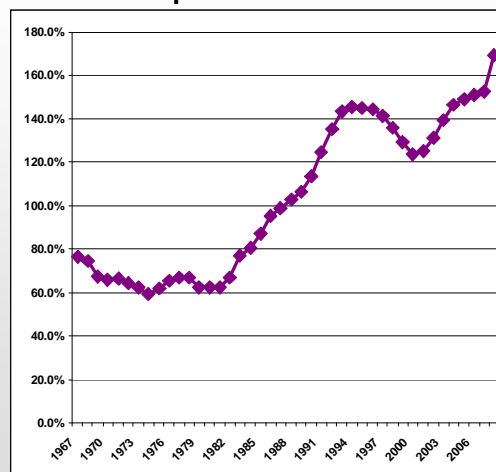


Source: US Internal Revenue service.

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**US Federal Debt / Median Income
per Household**



Source: Historical Tables, Budget of the US Government, Fiscal Year 2011; US Census.

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•Current Status Obligation Analysis

\$ 19.7 tr.	US National Debt (nominal dollars)
48.7 tr.	Present value of Medicare, Social Security and other Federal obligations at current benefits rates
14.1 tr.	Present value of 50 State Medicaid and employee pension, healthcare and other post-retirement benefits obligations at current benefit rates
1.6 tr.	Cost of renovating our 50–100 year old roads, bridges, levees and dams
8.5 tr.	Est. cost of bailouts (less recoveries, e.g., AIG, banks)
+ 0.5 tr.	Present value of Health Reform costs net of other prog. cuts
\$ 93.1 tr.	Obligations left to the next generation to repay (less bailout recoveries)

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Obligation Analysis

Total household net worth *after market crash* = \$41.2 tr. (est.) $\$93.1 / \$41.2 = 226\%$

That is, we **owe more than TWICE our total net worth** (including Bill Gates' and Warren Buffet's net worth). If we used **all of our wealth**, we would only be able to pay **less than half** of these few obligations.

Divided over 117,181,000 households = **\$794,497 obligations per household.**

Median household income = \$50,303. $\$794,497 / \$50,303 = 16$ **years of income.**

That is, the government would have to **tax away the entire** median income of **every household** in America for the next **16 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 32 years** would work better.

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Obligation Analysis

↪ But that **assumes all** of the tax revenues would go to **nothing else** but paying off these listed obligations...

- Never mind things like defense, schools, fire departments, police, water, sanitation, a criminal justice system....
- If we want all the other government services, the **tax rate goes up from there**

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– Observation:

- We have gone from being the greatest **lender** nation in the world, after WW-II
- To being the greatest **debtor** nation in the **history** of the world

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Obligation Analysis

Sources, adapted from:

David M. Walker, Comptroller General of the United States
Stephen C. Goss, Chief Actuary, Social Security Administration
William Saunders, Deputy Director, Office of Information Services, Centers for Medicare & Medicaid Services
Dean M. Mead, Research Manager, Governmental Accounting Standards Board
Gary Previts, President, American Accounting Association
American Society of Civil Engineers
Sunnucks, M., (Jan. 7, 2009), "\$8.5 Trillion Bailout Tally Exceeds Costs of All US Wars," ***Pacific Business News***, Accessed Jan. 8, 2009 at:
www.bizjournals.com/pacific/stories/2009/01/05/daily35.html
Budget of the US Government, 2011
US Census
US Congressional Budget Office
US Department of Commerce
US Internal Revenue Service

The above organizations and individuals do not necessarily endorse this presentation.

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– The economic options:

- 1. Raise taxes** (health reform raises \$0.5 tr. over 10 yrs. in new taxes, fees, **premiums & penalties—collectability is uncertain**), **tax cuts extended**, State/local gov'ts. raising property taxes
- 2. Cut benefits** (politically tough, requires law changes)
 - Healthcare (reform cuts \$0.45 tr. over 10 yrs., much out of **Medicare Advantage** prog.) but **adds \$857 b. new healthcare entitlement program**
 - Social Security (**Voting seniors on fixed incomes most hurt**)
 - Other Post-retirement programs
- 3. Grow the economy** (won't happen—would require **sustained double-digit growth** [which we've *never had*] while in the middle of the worst recession since 1930, and **1/3 of pop. retires from workforce**)

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– **The economic options—what’s happening *now*:**

- Fed Chairman, **Ben Bernanke**, *WSJ*, Dec. 6, 2010, p. A2) With:
 - **Interest & inflation rates near 0%**
 - **Unemployment persists near 9.5%**
 - **Housing markets depressed**
 - **We are at risk of:**
 - **Prolonged unemployment**
 - **Falling prices (deflation)**
- That’s **not** the economic *growth* we’d need.

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– **The economic options—what’s happening *now*:**

- 4. Default on payments (3 cities bankrupt, 15 municipalities bankrupt, 183 municipal bonds defaulted, 15 cities on verge of bankruptcy:**
Phoenix, Los Angeles, San Diego, San Francisco, San Jose, Honolulu, Chicago, Baltimore, Detroit, Las Vegas, Reno, New York City, Yonkers, Harrisburg, Norfolk) **Muni bond markets hammered (incl. hospitals)**

“Pay-as-You-Go” ...or, ***not...***

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– The economic options—what's happening *now*:

5. Inflate the currency

- – Federal Reserve **“monetizing the federal debt”**
 - “Expanding the Money Supply”
 - “Quantitative Easing-II”
 - “Buying Treasury Bonds”
 - “Pushing investors into the stock and corporate bond markets”
- **Giving the Federal gov't. dollars it needs to pay it's bills**
 - **And earning interest on the printed-up dollars!**

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– The economic options—what's happening *now*:

- **Global response—Inflating the currency, rather than cutting the budget, like Germany and UK, further eroding confidence in the US\$:**
 - China **down-graded** US bond ratings
 - Bond markets **raising long-term Treasury bond interest rates**
 - **Bond prices down**
 - **Municipal bond markets down**
 - **Compounding inability to pay our debts**

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– **The economic options—what’s happening *now*:**

- Countries with US\$ as **reserve currency** diversifying into other currency basket and gold
 - **China** and **India** each bought **200 metric tons of gold** to bolster their reserves
- **China positioning yuan to become major world currency**
 - **“Dollar’s role should be reconsidered”**
- Driving \$ value **down even more**

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– **The economic options—what’s happening *now*:**

- **Inflation of money supply further increases our expenses**
 - Entitlement program benefits are **indexed to inflation**
 - **Costs GO UP with inflation**
 - **De-indexing requires law changes**
 - **Voting seniors on fixed incomes most hurt by rising cost of living**
 - **Food & Fuel prices up**
 - But can’t risk raising interest rates

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Patient Protection and Affordable Care Act (PPACA), (HR 3590), Public Law 111-148
 Health Care and Education Reconciliation Act of 2010, (HR 4872), Public Law 111-152
 —Signed March 30, 2010

Healthcare Reform: Key Financial Issues

- **\$857 billion cost** over 10 years
 - **40%** paid for by taxes, premiums, fees and penalties
 - **60%** paid for by cuts in other program costs, such as Medicare Advantage plans

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Health Reform “Income Statement” (Billions)

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Total
Revenues	<u>\$1</u>	<u>\$2</u>	<u>\$12</u>	<u>\$38</u>	<u>\$48</u>	<u>\$45</u>	<u>\$57</u>	<u>\$62</u>	<u>\$66</u>	<u>\$68</u>	<u>\$404</u>
Less:											
Program Costs	\$3	\$7	\$9	\$10	\$49	\$87	\$132	\$154	\$164	\$172	\$787
HHS & IRS Impl. Costs	5	5	5	5	5	5	5	5	5	5	50
Other Program Auth. Costs	2	2	2	2	2	2	2	2	2	2	20
Total Costs	<u>\$10</u>	<u>\$14</u>	<u>\$16</u>	<u>\$17</u>	<u>\$56</u>	<u>\$94</u>	<u>\$139</u>	<u>\$161</u>	<u>\$171</u>	<u>\$179</u>	<u>\$857</u>
Gross Margin (loss)	<u>\$(11)</u>	<u>\$(5)</u>	<u>\$(4)</u>	<u>\$21</u>	<u>\$(8)</u>	<u>\$(49)</u>	<u>\$(82)</u>	<u>\$(99)</u>	<u>\$(105)</u>	<u>\$(111)</u>	<u>\$(453)</u>
Add:											
Cuts (incr.) in Other Progs.	\$(3)	\$(3)	\$7	\$28	\$52	\$63	\$72	\$88	\$103	\$119	\$526
Net Income (loss)	<u>\$(14)</u>	<u>\$(8)</u>	<u>\$3</u>	<u>\$49</u>	<u>\$44</u>	<u>\$14</u>	<u>\$(10)</u>	<u>\$(11)</u>	<u>\$(2)</u>	<u>\$8</u>	<u>\$73</u>

(Source: Adapted from US Congressional Budget Office)

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- **Collectability** of penalties and premiums is **questionable**
 - Low income individuals and small businesses may **lapse** for nonpayment
 - Patients stay in, or end up, **back in the ER**
 - **Limited recourse**
 - Withhold penalty from **Earned Income Credit** on tax return?
 - Small businesses may **split** to reduce number of employees?

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Healthcare Reform: Key Financial Issues

- Healthcare Reform does relatively **little** to
 - Reduce **administrative costs**
 - **Increases** HHS and IRS implementation costs by **\$50 billion** over 10 years
 - 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

- **Large employers** are “doing the math”
 - High-cost employee health & benefit plans
 - **Low penalties**
 - Reported **+\$5,000** per employee added to bottom-line profits if
 - Drop health plan
 - Just pay the penalties

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Healthcare Reform: Key Financial Issues

- **Mini-med** plans get **temporary** relief on
 - Minimum Loss Ratios
 - **Not** held to **80%**
 - Annual / lifetime limits
 - Some as **low** as **\$2,000**
- Expected **shift to State exchange** plans over time

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Healthcare Reform: Key Financial Issues

- **Insurance companies**
 - Higher costs
 - Minimum Loss Ratios
 - Guaranteed Insurability
 - No Annual / Lifetime Limits
 - Lower margins
 - More regulation
 - Potential loss of employer markets
 - Large and Mini-med

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Healthcare Reform: Key Financial Issues

- Possible **insurance industry** outcomes
 - May replace lost business and do well through
 - Plans sold on State exchanges
 - Bidding for State Medicaid plans
 - May **exit** the market
 - Leaving only a “public option”

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- And program costs will escalate over time
 - Today Medicare costs **527 times more** than when it was started in 1965
 - Healthcare Reform projected \$73 billion surplus is highly uncertain

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Congressional Budget Office Notable Quotes (Emphasis added)

“...estimates of the effects of comprehensive reforms are **extremely uncertain**.”

“...most of the money will pay for new programs and will not enhance the government’s economic ability to pay Medicare benefits.”

“...the health reform legislation maintains and puts into effect a number of **policies** that might be **difficult to sustain** over a long period of time.”

Speaking of Medicare cost reduction:

“It is **unclear whether such a reduction can be achieved**, and, if so, whether it would be through greater efficiencies in the delivery of health care or through reductions in access to care or the quality of care.”

(Source: US Congressional Budget Office)

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- **Post Script...**
 - **20 State** joint lawsuit challenging constitutionality of Federal mandates in the reform legislation **moving forward** (AK, AL, AZ, CO, FL, GA, ID, IN, LA, MI, MS, ND, NE, NV, PA, SC, SD, TX, UT, WA)
 - Individual mandate
 - State mandate for expanded Medicaid programs
 - Play-or-Pay Penalties
 - **VA, 21st State**, separate lawsuit **moving forward**
 - Plus similar **private** lawsuits
 - **New Congress** HR symbolic vote to **repeal** health reform
 - Energy & Commerce Commission to **"recapture" the \$400b. in Medicare cuts and funnel them back** into the program

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- **Key Issues (allegations)**
 - An individual who **simply declines** to buy health insurance
 - Is **not** participating in **Inter-state commerce**
 - Therefore **no Federal authority to compel** purchase of anything (health insurance)
 - **Mandated** expansion of **State Medicaid spending**
 - Violation of **State Sovereignty**
 - **Penalties** for nonparticipation
 - Unlawful **Direct Tax**

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Key Realities:

- Economic meltdown has States financially strapped
 - Texas has \$25 b. budget shortfall
 - 25% Budget cuts over three years
 - Proportionately bigger than California's
 - State & Local Government layoffs
 - **Largest contributor to new unemployment claims**
 - **Can't pay their pensions**

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Key Realities:

- Lawsuits / repeal vote may delay mandatory
 - Implementations
 - Expenditures
- **Marginal changes most likely outcome**
 - Medicaid enrollment reductions / assistance
 - Individual mandate elimination (dismantles insurance risk pool base)

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The Moment of Truth

**— Report of the National Commission on
Fiscal Responsibility and Reform
December 2010**

Key quotes...

(emphasis added)

www.fiscalcommission.gov/sites/fiscalcommission.gov/files/documents/TheMomentofTruth12_1_2010.pdf

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Throughout our nation's history, Americans have found the courage to do right by our children's future.... **We cannot play games or put off hard choices any longer....**

Our challenge is clear and inescapable: America cannot be great if we go broke. Our businesses will not be able to grow and create jobs, and our workers will not be able to compete successfully for the jobs of the future **without a plan to get this crushing debt burden off our backs....**

The American people are counting on us to put politics aside, pull together not pull apart, and **agree on a plan to live within our means** and make America strong for the **long haul.**

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As members of the National Commission on Fiscal Responsibility and Reform, we spent the past eight months studying the same **cold, hard facts**. Together, we have reached these **unavoidable conclusions**: **The problem is real. The solution will be painful. There is no easy way out....**

We come from **different backgrounds, represent different regions, and belong to different parties**, but we share a common belief that **America's long-term fiscal gap is unsustainable** and, if left unchecked, will see **our children and grandchildren living in a poorer, weaker nation....** Every modest sacrifice we refuse to make today only forces far **greater sacrifices** of hope and opportunity upon the next generation.

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Over the course of our deliberations, the **urgency of our mission has become all the more apparent**. The contagion of debt that began in Greece and continues to sweep through Europe shows us clearly that **no economy will be immune. If the U.S. does not put its house in order, the reckoning will be sure and the devastation severe....**

We do not pretend to have all the answers. We offer our plan as the starting point for a serious national conversation in which **every citizen has an interest and all should have a say**.

Our leaders have a **responsibility to level with Americans about the choices we face**, and to enlist the ingenuity and determination of the American people in rising to the challenge....

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The American people are a long way ahead of the political system in recognizing that **now is the time to act**. We believe that far from penalizing their leaders for making the tough choices, **Americans will punish politicians for backing down - and well they should**.

In the weeks and months to come, countless advocacy groups and special interests will try mightily through expensive, dramatic, and heart-wrenching media assaults to exempt themselves from shared sacrifice and common purpose. **The national interest, not special interests, must prevail....**

After all the talk about debt and deficits, it is long past time for America's leaders to **put up or shut up**. The era of debt denial is over, and there can be **no turning back**.

—The Report was **voted down**.

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Any Questions?

Corresponding Author:

Dana A. Forgione, Ph.D., CPA, CMA, CFE

*Janey S. Briscoe Endowed Chair in the Business of Health
Professor of Accounting*

*College of Business
University of Texas at San Antonio
One UTSA Circle
San Antonio, TX 78248-0632 USA
Tel.: +1.210.458.6318
Fax: +1.810.815.5378
dana.forgione@UTSA.edu
www.UTSA.edu*



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The University of Texas at San Antonio

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