

Medicaid's Costs, Like Medicare's, Have Risen Far More Than the Costs of Private Health Care

By Jeffrey H. Anderson, Ph.D., Senior Fellow, Health Care Studies

- Since 1970, Medicaid's costs have risen 35 percent more, per patient, than the combined costs of all health care in America apart from Medicare and Medicaid.
- This is true despite costs shifted from Medicaid to the Medicare prescription drug benefit and to SCHIP, and despite generous assumptions favoring Medicaid.
- Proponents of a "public option" for health insurance and of a Medicaid expansion claim that government-run health care reduces costs, but empirical evidence demonstrates the opposite: privately purchased health care has contained costs far better than government-run care.

As the congressional debate heats up over President Obama's proposed "public option" and his proposed expansion of Medicaid, the debate largely centers on the question of controlling costs. The president claims that more government control would make health care more affordable. The empirical evidence, however, confirms that more government control would make health care more expensive.

Last month I showed how Medicare's costs, even without the Medicare prescription drug benefit, have risen 34 percent more since 1970 than the combined costs of all other health care in America apart from Medicare and Medicaid — the vast majority of which is purchased through the private sector.¹ In response, some have argued that Medicare's costs should have been *expected* to have risen more than other costs because, they asserted, the costs of treating elderly patients, whether through Medicare or not, have risen more than the costs of treating younger patients.

One response came from *New York Times* science correspondent Gardiner Harris, who wrote, "But Medicare only covers old people, and the costs of end-of-life care have exploded over the past three decades. Private insurers, by contrast, also cover younger people, and the cost of caring for a 22-year-old hasn't dramatically changed. In 1970, cancer patients simply died. Now they take an array of extremely expensive drugs before they die." For these reasons, Harris concluded, "comparing the costs of programs that cover 22-year-olds against one that exclusively covers those 65 and over is just idiotic."²

My response is threefold:

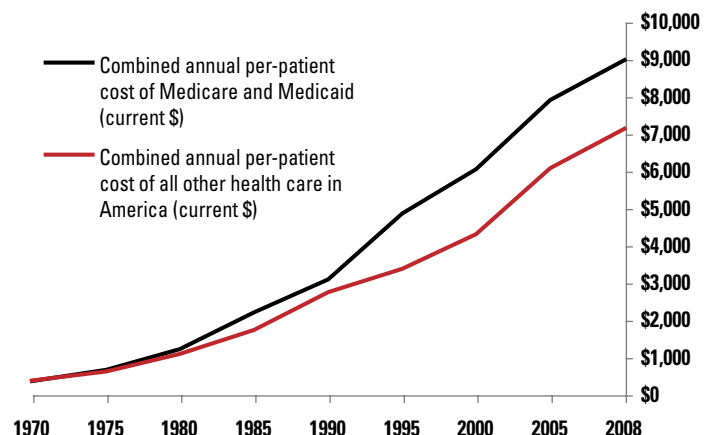
One, the *New York Times* has published such comparisons when they have appeared to favor Medicare.

Two, the statistics on National Health Expenditures (NHE) provide no support for Harris's claim and suggest that the opposite is more likely true. Over time, the costs of health care for the young appear to be rising faster than for the old.

Three, comparing privately purchased care with Medicare's sister program, Medicaid — which covers all age-groups — yields further evidence of government's inability to control costs. The costs of the two flagship government programs are steaming along at swift and strikingly similar speeds, resulting in cost increases more than one-third greater, in each case, than the combined cost increases of all other health care in the United States.³ Whether it's Medicare or Medicaid, the conclusion is the same: government-run health care has proven to be far more expensive, not more affordable, than privately purchased care.

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Cost-Containment Record of the Two Flagship Government-Run Health Care Programs vs. All Other Health Care Nationwide



A Response in More Detail

Harris's claim that it makes no sense to compare Medicare's costs to privately purchased costs is curious given that on March 25 of this year, the *New York Times* published findings by Jacob S. Hacker that made such comparisons. Hacker is credited by the *Wall Street Journal* as the architect of President Obama's "public option."

"The Medicare program is a real success story," Hacker told the *Times*, because while "private health insurance premiums increased an average of 7.3 percent annually from 1997 to 2006. . . Medicare spending per enrollee rose only 4.6 percent a year for the same benefits."⁴ Proponents of the "public option" immediately embraced Hacker's claims. As I detailed last month, however, Hacker's analysis completely omits any consideration of a profound decline in private out-of-pocket spending and therefore neglects a major portion of the privately purchased health care market.⁵

From 1970 to 2007, *out-of-pocket* expenditures dropped from 62 percent of the privately run health care market to just 26 percent. Correspondingly, *insurance* expenditures increased from 38 percent to 74 percent. Hacker makes no allowance for that change. Instead, he draws conclusions about private insurance's cost-effectiveness without noting the increased percentage of care it is covering.

The *New York Times* did not object to comparing the costs of Medicare and privately purchased care when the comparison, however flawed, yielded a result, however untenable, appearing to favor Medicare. It is also worth noting that Hacker and other researchers who have ignored out-of-pocket costs have never claimed that Medicare has controlled costs better than private entities *despite* a disproportionate rise in health costs for the elderly.⁶ If they had thought this claim to be true, they presumably would have made it — since it would have been to their advantage to do so.

The claim that health care costs have increased more for the old than for the young is not supported by the NHE data published by the Centers for Medicare and Medicaid Services (CMS). CMS has published age-based data from 1987 through 2004, and, across that span, the per-person costs of those aged zero to 18 rose the fastest. That was the only group whose per-person costs tripled over this period, rising 205 percent. In comparison, the per-person costs for those between the ages of 55 and 64 — those on the cusp of enrolling in Medicare — rose 195 percent. Thus, NHE statistics suggest that, if anything, nationwide expenditures have trended toward a greater percentage of health care costs being spent on the young. This possible advantage for Medicare makes it all the more striking that Medicare's costs have risen far faster than the costs of privately purchased care.

Comparing Medicaid to Privately Purchased Care

Three, the costs of Medicaid, which covers all age groups, have also risen much faster than the costs of privately purchased care.

My analysis takes the pool of all health care costs in the United States and subtracts the costs of Medicare and Medicaid. It then takes that remaining pool of care — all health care nation-

wide apart from Medicare and Medicaid — and compares its cost increases over time with those of Medicaid over time.⁷

In 1970, Medicaid had been up and running for five years, and its costs were \$310 per patient. That same year, the combined costs of all health care apart from Medicare and Medicaid were \$364 per patient. Since Medicaid normally doesn't cover all of a patient's care in a given year, it stands to reason that its annual per-patient costs would be lower than the privately purchased costs of all annual care. But this reasonable result has not continued, as Medicaid's costs are no longer lower. Since 1970, Medicaid's costs have risen 35 percent more, per patient, than the combined costs of all health care in America apart from Medicare and Medicaid. Medicaid now costs \$1,098 more per patient (\$8,217 to \$7,119) than all health care apart from Medicare and Medicaid.⁸

I reached these conclusions despite giving Medicaid the benefit of the doubt in four important ways.

Generous Treatment of Medicaid

First, my analysis doesn't adjust for cost-shifting from Medicaid to the Medicare prescription drug program. Medicaid used to cover many of the costs of drugs that have now been shifted to Medicare. As of 2005, just prior to the Medicare drug benefit's full implementation, Medicaid's per-patient costs had risen 53 percent (rather than 35 percent) more than per-patient NHE apart from Medicare and Medicaid.

Second, my analysis counts the Medicare prescription drug program's expenditures as part of privately purchased care, rather than as a part of Medicare.⁹ Because my analysis compares Medicaid's costs to NHE apart from Medicaid *and* Medicare, this benefits Medicaid.

Third, it removes everyone on Medicaid or Medicare from the pool of patients receiving privately purchased care, even though a significant share of Medicaid patients' care is covered not by Medicaid but privately — and even though, as of 2000, 32 percent of Medicare patients' overall care (including their Medicare copayments and Medigap insurance) was paid for privately.¹⁰ My methodology counts health care purchased privately by Medicaid and Medicare beneficiaries among the costs of private care, without counting its recipients among the *people receiving* private care. If privately purchased health care costs are divided by the whole U.S. population, rather than by the population not enrolled in Medicaid or Medicare, then Medicaid's per-patient costs have increased 54 percent more than per-patient NHE apart from Medicare and Medicaid.

Fourth, it doesn't adjust for any cost-shifting from Medicaid to the State Children's Health Insurance Program (SCHIP). When SCHIP began in 1998, many Medicaid beneficiaries were shifted into that program. Over time, this has saved Medicaid billions without representing any actual improvement in cost containment. From 1970 to 1997, immediately prior to the start of SCHIP, Medicaid's costs rose 81 percent more than NHE apart from Medicare and Medicaid.

If any of these advantages were taken away, Medicaid's record of cost containment would look even worse than it already does. And yet President Obama wants to expand the program. Surely there is a better way.

Conclusion: Medicaid's Soaring Costs – And a Better Path to Value in Health Care

Medicaid's costs have skyrocketed despite a quality of care that few, if any, find particularly impressive. Indeed, numerous studies have documented its deficiencies.¹¹ If the goal of the American people is to get the best value – the best possible health care at the lowest possible price – then Medicaid seems to have failed on both counts.

Nearly 40 years of evidence reveals what has worked and what hasn't. By looking only at the costs of Medicaid and Medicare, and how they have changed over time, and comparing those to the overall costs of health care apart from Medicaid and Medicare and how those have changed over time, one can see government-run health care's performance for what it truly is. For every \$3 in per-patient cost increases among (predominantly) privately purchased health care, Medicaid's and Medicare's costs have each increased more than \$4. With trillions of dollars at stake in the debate over a proposed expansion of government-run health care, Americans cannot afford to neglect such plain facts.

Since 1970, the costs of Medicaid have risen 35 percent more, and the costs of Medicare have risen 34 percent more, per patient, than the combined costs of all health care in America apart from these two flagship government-run programs. Since 1970, the combined per-patient costs of Medicare and Medicaid have risen from \$344 to \$8,955. The per-patient costs of all other health care in the U.S. have risen from \$364 to \$7,119. Medicare and Medicaid used to cost \$20 less per patient than other care. Now they cost \$1,836 more.

If the costs of Medicare and Medicaid had risen only as much as the costs of all other health care in America, then, instead of costing a combined \$807 billion last year, they would have cost a combined \$606 billion. That savings of \$201 billion would have amounted to a savings of more than \$1,750 per American household last year alone – and even more in coming years if the trend across nearly four decades continues.¹² To be clear, Medicare and Medicaid don't cost just \$1,750 per household; they cost \$1,750 *more* per household than they would if they had controlled costs as well as other care.

Supporters of the president's proposed "public option" and proposed Medicaid expansion owe it to the American public to explain their oft-repeated contention that such expansions would cut costs, when nearly four decades of evidence shows that government-run health care has succeeded only in raising costs. During an economic downturn in which we are already running the highest inflation-adjusted budget deficits in our nation's entire history, wishful thinking and empty rhetoric should not be allowed to trump empirical evidence.

In truth, there is only one reliable pursuer of value in American health care: the American consumer. If Congress and the president are truly serious about improving American health care, they should end the tax discrimination against the uninsured. They should issue a tax credit to put the uninsured and self-insured on the same ground as those with employer-provided insurance. They should promote a more vibrant private market with greater competition across state lines, greater consumer freedom, and greater incentives for consumers to pursue value. These are the changes we need.

The verdict could hardly be plainer: Government-run health care limits choice and is more expensive. Privately purchased care offers choice and is more affordable. Only the government could have a hard time choosing between these two alternatives.

Jeffrey H. Anderson is a Senior Fellow in Health Care Studies at the Pacific Research Institute. He can be reached via email at janderson@pacificresearch.org.

Endnotes

- 1 Jeffrey H. Anderson, "Medicare's Costs Have Risen Far More Than the Costs of Private Health Care," *Health Policy Prescriptions*, Vol. 7, No. 06 (June 2009).
- 2 Gardiner Harris, personal communication via email, June 25 and 26, 2009.
- 3 Medicaid's per-patient costs have risen 26.5-times, Medicare's per-patient costs have risen 26.2-times, and total per-patient National Health Expenditures apart from Medicare and Medicaid have risen 19.6-times. Sources for data: Centers for Medicare and Medicaid Services (CMS) ("NATIONAL HEALTH EXPENDITURES BYTYPE OF SERVICE AND SOURCE OF FUNDS: CALENDARYEARS 2007-1960"); CMS "National Health Expenditure Projections 2008-18," Table 1; CMS "Total Personal Health Care Per Capita Spending, By Age Group"; 2008 Medicare Trustees Report ("2008 Annual Report of the Board of Trustees of the Federal Hospital Insurance and Federal Supplementary Medical Insurance Trust Funds"), Table III.A1, Table III.A3; CMS ("2008 Actuarial Report on the Financial Outlook for Medicaid"), Table 3; U.S. Census ("Income, Poverty, and Health Insurance Coverage in the United States: 2007," Table C-1); John D. Klemm, "Medicaid Spending: A Brief History," *Health Care Financing Review* 22, no. 1 (Fall 2000), pp. 106-08, posted by CMS; CMS ("National health expenditures aggregate, per capita, percent distribution, and annual percent change by source of funds: Calendar years 2007-1960"); Christie Provost and Paul Hughes, "Medicaid: 35 Years of Service," *Health Care Financing Review* 22, no. 1 (Fall 2000), p. 147, posted by CMS; House Ways and Means Committee Publication #108-6 ("2004 Green Book"), Appendix B; Medicaid spending for 1995-2008, 1990, 1985, 1980, 1975, and 1970 is from CMS ("2008 Actuarial Report on the Financial Outlook of Medicaid," Table 3); estimated spending for the intervening years is based on linear projections; Medicaid enrollment for 1987-2007 is from the U.S. Census; estimated enrollment for 2008 is computed by multiplying 2007 enrollment times the average annual increase from 2000-07; estimates for 1970-86 are based on figures provided by Klemm (see citation above); Medicare enrollment for 2000-08, 1995, 1990, 1985, 1980, 1975, and 1970 is from the 2008 Medicare Trustees Report, Table III.A.3; estimated enrollment for the intervening years is based on linear progressions; dual enrollment in Medicare and Medicaid is estimated using Provost's and Hughes's figure of 19 percent dual-eligibles in 1997 (see citation above).
- 4 "A Health Plan for All and the Concerns it Raises," *New York Times*, March 25, 2009, p. B1. "The Public Option Two-Step," *Wall Street Journal*, July 10, 2009, p. A12.
- 5 Jacob S. Hacker, "The Case for Public Plan Choice in National Health Reform: Key to Cost Control and Quality Coverage," U.C. Berkeley School of Law and the Institute for America's Future, Dec. 16, 2008.
- 6 See Cristina Boccuti and Marilyn Moon, "Comparing Medicare and Private Insurers: Growth Rates in Spending Over Three Decades," *Health Affairs* 22, no. 2 (March/April 2003), p. 230.
- 7 Health care costs have skyrocketed, but they haven't risen evenly. While Medicare's costs have risen 13-fold since 1970 in real (inflation-adjusted) dollars, health care costs apart from Medicare and Medicaid have only risen 4-fold. However, a large part of Medicare's cost increases have resulted from increases in enrollment. In 1970, 7 percent of the U.S. population was on Medicare; last year, the figure was over 13.5 percent. Thus, overall costs are misleading, and the fairest measure is per-patient costs.
- 8 Thus, Medicaid's costs have risen \$1,152 more per patient. Since 1970, the per-patient costs of Medicaid's sister program, Medicare, have risen from \$368 to \$9,634, which is \$2,511 more per patient than the combined costs of all health care apart from Medicare and Medicaid.
- 9 It does so because the Medicare prescription drug program represents an expansion of Medicare into a new realm.
- 10 House Ways and Means Publication #108-6, Appendix B, Table B-13 (see citation in note 1).
- 11 Scott Gottlieb, "What Medicaid Tells Us About Government Health Care," *Wall Street Journal*, January 8, 2009, and references.
- 12 The U.S. Census estimates that there were 108.8 million households in America as of 2005.