ECONOMIC FINDING

Does One Medicare Fit All? The Economics of Uniform Health Insurance Benefits

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An alternative to a single, generous public benefit would be a more basic universal benefit to everyone—one with good financial protection and coverage for services with substantial health benefits, but with limited or no coverage for expensive, lower-value services.

The US looks very different now from 1965, in ways that make having a single Medicare program for everyone less efficient and less financially sustainable.

· First, medical technology has advanced by leaps since 1965, improving health care and extending lives, but at increasing costs. For example, a heart attack in 1965 that would have killed a patient can now be treated, and that life extended, but with an average hospital stay costing $20,000. The upshot is that while rich and poor could afford similar health care in 1965 because treatment was simpler and less expensive, the cost of providing everyone with that treatment has skyrocketed as medical technology has evolved.

· Second, while top tax rates have fallen since the 1960s, average overall marginal tax rates have increased. These increasing marginal tax rates come at a cost that goes beyond the actual revenues raised: they change the decisions and investments made throughout the economy, exerting a drag on economic activity (dubbed deadweight loss). As marginal tax rates have risen, the economic toll to financing new health benefits has mounted.

· Finally, income inequality is rising, and people with different incomes may want to devote a different share of resources to health care. Higher income households might opt for a generous, comprehensive benefit—but that would eat up an enormous share of overall resources available to lower income households. Forcing such a generous plan on low-income households would make them worse off than a combination of a less generous plan alongside more generous other social insurance programs. Forcing a more basic plan on high-income households, on the other hand, would prevent them from spending resources on health care that they value, and might in fact slow the development of new, life-saving medical technologies.

Those trends seem likely to continue, so that covering everyone with a uniform generous insurance plan will be increasingly challenging. An alternative to a single, generous public benefit would be to provide a more basic universal benefit to everyone—one with good financial protection and coverage for services with substantial health benefits, but with limited or no coverage for expensive, lower-value services. Higher income people could pay to add on coverage of those lower-value services.

Figure 1 · Three Changes Since the Introduction of Medicare in 1965

- Technology
  Medical technology has advanced by leaps since 1965, improving health care and extending lives, but at increasing costs.

- Taxes
  While top tax rates have fallen since the 1960s, average overall marginal tax rates have increased... As marginal tax rates have risen, the economic toll of financing new health benefits has mounted.

- Income Inequality
  Income inequality has risen substantially in the US. Wealthy households, on average, have access to more and better products and services than lower-income households... With greater income inequality, having a single, uniform health insurance plan for everyone “fits” the population less and less well.