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

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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*
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• Context
  – The Western World is aging-out
  – Elderly ratios *highest* in the world
    – (Age 65+ / Ages 15–64)*100
      – World ave.: 12.6
      – USA: 22.1
      – Western Europe: 24.8
      – Japan: 42.7
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• **Context**
  • WW-II Generation 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
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- **Context**

  - **118 Years of Boomers!**

  - **1946 – 1963** (18 yrs.)
    - Born
  - **1964 – 1984** (22 yrs.)
    - Viet Nam/College
  - **2011 – 2028** (18 yrs.)
    - Age 65
  - **2046 – 2063** (18 yrs.)
    - Age 100

  - **Silver Tsunami Peaks**
  - **On Medicare & Social Security for 53 yrs.**

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

The Silver Tsunami is Getting Closer!

The graph shows the increasing ratio of the elderly population (Age 65+ / 15–64) over time, with a significant rise predicted by 2016.
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Elderly Ratio by Developed Countries (Age 65+ / 15–64)*100

<table>
<thead>
<tr>
<th>Country</th>
<th>Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>Japan</td>
<td>42.7</td>
</tr>
<tr>
<td>Germany</td>
<td>32.1</td>
</tr>
<tr>
<td>France</td>
<td>30.2</td>
</tr>
<tr>
<td>UK</td>
<td>28.2</td>
</tr>
<tr>
<td>Canada</td>
<td>23.8</td>
</tr>
<tr>
<td>Australia</td>
<td>22.6</td>
</tr>
<tr>
<td>New Zealand</td>
<td>22.4</td>
</tr>
<tr>
<td>USA</td>
<td>22.1</td>
</tr>
<tr>
<td>Russia</td>
<td>19.4</td>
</tr>
<tr>
<td>China</td>
<td>13.3</td>
</tr>
<tr>
<td>World</td>
<td>12.6</td>
</tr>
</tbody>
</table>
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• In contrast: the growing *developing* world
  – Elderly ratios *lowest* in the world
    – Turkey: 11.7
    – South Africa: 7.7
    – Iran: 7.1
    – Iraq: 5.5
    – Nigeria: 5.1
    – Saudi Arabia: 4.3
    – UAE: 1.2
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Elderly Ratio by Developing Countries
(Age 65+ / 15–64)*100

- World: 12.6
- Turkey: 11.7
- Brazil: 11.4
- India: 8.6
- Egypt: 8.2
- South Africa: 7.7
- Pakistan: 7.4
- Iran: 7.1
- Iraq: 5.5
- Nigeria: 5.1
- Afghanistan: 4.7
- Kenya: 4.6
- Saudi Arabia: 4.3
- UAE: 1.2
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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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"We’re not happy, until you’re not happy!"
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U.S. Workers per Social Security (OASDI) Beneficiary
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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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Key Definitions:

• **Sources of Debt Financing**
  - **Public** debt—loans from
    - General public
    - Foreign governments, mostly
      - Japan $1.1 tr.
      - China $1.1 tr.
  - Usually reported in the media
More than 41.2% ($6.1 tr.) of our $14.8 tr. in nominal public debt was loaned by foreign investors—mostly Japan & China.

Key Definitions:

- **Sources of Debt Financing**
  - **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”**
**Key Definitions:**

- **Sources of Debt Financing**
  - Largely borrowed $6.1 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
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**Key Definitions:**

- **Government debt**
  - Borrowed money from Trust Funds then **spent** on programs
- **GAO—never repaid**
  - Principal & int. just rolled into new IOUs
  - IOUs expected to be repaid with
    - **Future tax collections**
      - (So we pay-in twice!)
    - Proceeds from issuing more **Public debt**
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**Real US Federal Social Services Expenditures**
GDP Price Index Adjusted
(Base Year = 2017)

*Note: Inflation adjusted. Actual nominal dollars are $4.2 trillion.*

Source: *Historical Tables, Budget of the US Government, fiscal years 2017–2022.*
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Real US National Debt
GDP Price Index Adjusted
(Base Year = 2017)

* Notes: Inflation adjusted. **Actual nominal dollars** = $23.6 tr. (Includes both Public debt & Government debt for 2022.)

Source: *Historical Tables, Budget of the US Government, fiscal years 2017–2022.*
Federal Revenues and Spending
Control of Congress and the Presidency
GDP Price Index Adjusted
(Base Year = 2017)

- Democratic Controlled Congress
- Republican Controlled Congress
- Split Congress
- Republican President
- Democratic President
- Revenues

Source: Historical Tables, Budget of the US Government, fiscal years 2017–2022; Wikipedia.
* Notes: Inflation adjusted. Actual nominal dollars = $23.6 tr. (Includes both Public debt & Government debt for 2022.)

Source: Historical Tables, Budget of the US Government, fiscal years 2017–2022.
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US Federal Debt to GDP

Source: Historical Tables, Budget of the US Government, fiscal years 2017–2022.
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Number of Households (000)

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US Federal Debt / Median Household Income

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Number of Tax Returns Filed

But today only about 56.1% of the filers actually pay taxes.

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Tax Units with Zero Individual Income Taxes (2017 Data)

Pay Tax, 56.1%

Don’t Pay Tax, 43.9%

Sources: The Urban Institute and Brookings Institution, Tax Policy Center, 2017
Pay Tax, 56.1%

Zero Net Inc. & Payroll Tax, 26.4%

No Inc. or Payroll Tax, 17.8%

Tax Units with No Tax Liability (2017 Data)

Sources: The Urban Institute and Brookings Institution, Tax Policy Center, 2017
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Real US Federal Debt per Tax Return Filed
GDP Price Index Adjusted
(Base Year = 2017)


Debt per Tax-Paying Return: $227,556 in 2015
293% higher than WW-II
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• The Bailouts*: **Outflows** ($624 b. as of Sept. 26, 2017)

- Banks & Other Financial Institutions, $245.0
- Fannie & Freddie, $187.0
- Auto Companies, $79.7
- AIG, $67.8
- Other, $25.9
- Bad Debt ("Toxic Asset") Purchases, $18.6
- Bad Debt ("Toxic Asset") Purchases, $18.6

Note: Bailouts = Troubled Asset Relief Program (TARP) and separate Fannie Mae & Freddie Mac bailouts.
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• The Bailouts: Inflows ($713 b. as of Sept. 26, 2017)

- Repaid by Bailed-out Companies, $390.0
- Dividends Earned, $292.0
- Fees & Sales of Stock or Other Assets, $19.7
- Sale of Stock Warrents Held on Companies that Repaid, $9.6
- Interest Earned, $1.8
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- **The Bailouts:** *Net Gain* ($89 b.)

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<table>
<thead>
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<td><strong>$624 b.</strong></td>
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<td><strong>Net Gain</strong></td>
<td><strong>$89 b.</strong></td>
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</tbody>
</table>
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- Selected Obligations at Current Benefit Rates

$ 23.6 tr. US National Debt (2022 nominal dollars)
56.3 tr. PV of Medicare obligations (less premiums)
77.5 tr. PV of Social Security obligations
7.2 tr. PV of fed. employee & VA ret. & health benefit obligations
28.8 tr. PV of 50 State Medicaid and employee pension, healthcare and other post-retirement benefits obligations

+ 4.6 tr. Cost of renovating our 50–100+ year old infrastructure (roads, bridges, levees, dams, water, sewer, rail, schools, aviation, transit, etc.

$ 198.0 tr. Obligations left to the next generation to repay,

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

1. What is our net worth?

Total household & NP org. net worth = $96.2 tr. (Q2 2017)

\[
\frac{198.0}{96.2} = 206\%
\]

We **owe more than twice our total net worth** (including Bill Gates’, Warren Buffet’s, George Soros’, and all NP foundations net worth).

If we confiscated **all of the wealth in the entire country**, we could only pay for less than **half** of these selected obligations.

Total GLOBAL wealth = $256 tr.

Our share is only \[
\frac{96.2}{256} = 37.6\%.
\]

We would have to consume \[
\frac{198.0}{256} = 77\%
\] of the entire world’s wealth to meet our obligations (more than twice our share)!
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Selected Obligation Analysis

2. How much do we make?

$198.0 tr. In obligations divided over 125,819,000 households =

$1,573,689 in obligations / household.

Median household income = $59,039.

$1,573,689 / $59,039 = 27 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 27 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 54 years would work better.

Just long enough to get the boomers through the system...
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**Selected Obligation Analysis**

That is, we need $198.0 – $96.2 = **$101.8 tr. more wealth** than we have to meet these obligations!

That's equal to the entire wealth of:

<table>
<thead>
<tr>
<th>Region</th>
<th>Wealth</th>
</tr>
</thead>
<tbody>
<tr>
<td>Europe</td>
<td>$73.3</td>
</tr>
<tr>
<td>China</td>
<td>23.4</td>
</tr>
<tr>
<td>India</td>
<td>3.1</td>
</tr>
<tr>
<td>Africa</td>
<td>2.5</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$102.3</strong></td>
</tr>
</tbody>
</table>

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

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Selected Obligation Analysis

That 50% tax rate for the next 54 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.
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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
– Observation:

• We have become the greatest debtor nation in the entire history of the world.
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Selected Obligation Analysis

Sources, adapted from:

- American Society of Civil Engineers
- Budget of the US Government
- Credit Suisse Global Wealth Report
- Medicare Trust Funds Annual Report
- Social Security Trust Fund Annual Report
- US Census
- US Congressional Budget Office
- US Department of Commerce
- US Federal Reserve
- US Internal Revenue Service
- Other
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- **The economic options:**
  1. **Raise taxes**
     - New law *cuts* 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**
     - 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
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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...
The economic options:

5. Inflated 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
- Gave Federal gov’t. dollars it needed to pay its bills
- And earning interest on the printed-up dollars!
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Inflation of US Money Supply 1940–2017

(Billions)

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.

15 oz. Regular size  1.5 oz. Indiv. size

They Shrink the Scoop!
## Supplemental Nutrition Assistance Program (SNAP)

### No. Persons Participating

**As of June 2017**

<table>
<thead>
<tr>
<th></th>
<th>2008</th>
<th>2017</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>28,222,630</td>
<td>41,310,785</td>
<td>+46.4%</td>
</tr>
</tbody>
</table>

### 9-Year Change

### % of Population

<table>
<thead>
<tr>
<th>Population</th>
<th>2017</th>
<th>% of Pop.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>326,003,161</td>
<td>13%</td>
</tr>
</tbody>
</table>

1 out of every 8 people!

Source: U.S. Department of Agriculture
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Patient Protection and Affordable Care Act (ACA), (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

• $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
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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
Healthcare Reform: Key Financial Issues

Figure 5
Uninsured Rates Among the Nonelderly by State, 2016

NOTES: Includes nonelderly individuals ages 0-64.
Healthcare Reform: Key Financial Issues

Figure 3
Reasons for Being Uninsured Among Uninsured Nonelderly Adults, 2016
Share who say they are uninsured because:

- Cost is too high: 45%
- Lost job or changed employers: 22%
- Lost Medicaid: 12%
- Employer does not offer or ineligible for coverage: 10%
- Family status change: 10%
- No need for health coverage: 2%

NOTES: Includes nonelderly adults ages 18-64. Respondents can select multiple reasons. Status change includes marital status change, death of spouse or parent, or ineligible due to age or leaving school.
SOURCE: Kaiser Family Foundation analysis of the 2016 National Health Interview Survey.
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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 28% Young & Healthy (age 18–34)
        • Still <40% target
    • Double-digit premium increases
    • Dropping-out of exchange market
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2nd Lowest-Cost Silver Plan Premium % Change 2016–1017

Source: Kaiser Family Foundation
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% Change in No. of Issuers Participating in Health Insurance Exchanges 2014–2017

Source: Kaiser Family Foundation
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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
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
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
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
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Healthcare Reform: Key Financial Issues

• Insurance company subsidies never appropriated by Congress

• 6th Legal Challenge
  • U.S. House of Representatives vs. Burwell & DHHS, Lew & Treasury Dept.
  • Allegation: 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
Healthcare Reform: Key Financial Issues

- **Executive Order (Oct. 12, 2017)**
  - Stops subsidy payments
    - Until / Unless Congress specifically appropriates funding
    - Likely results:
      - Higher premiums
      - Exit the exchanges
    - Regulations will take months to implement
  - Multiple lawsuits challenging Executive Orders already underway
    - Outcomes uncertain
One thing is certain—costs will **escalate** over time

- Today Medicare costs **23,515% 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.”
Any Questions?

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