ECONOMICS ◇ FEATURED ◇ HEALTHCARE

# Medicare For All would still leave US healthcare a bloated mess

by Corey Alt | June 21, 2021

Watching the Democratic primary play out in 2019 and 2020, one could be forgiven for thinking that healthcare would be a top priority for a new Democratic administration, whomever came out with the nomination. Every candidate took a position on Medicare for All, and most had their own plans—the Washington Post even made a tracker. CMS projects US healthcare spending to reach an all-time high this year, but as the Biden administration's agenda takes shape, healthcare is conspicuously absent.

Let's imagine that, instead of the narrow Biden victory that we saw last November, that Bernie Sanders had won with a sweeping mandate, taking the House and Senate with overwhelming margins and implementing his healthcare agenda. Even in this scenario, the US would still have the highest per capita cost of healthcare in the world, beating out Switzerland by 6%.

## The Sanders Plan

President Sanders' plan to overhaul the US healthcare system has three pillars: nationalize health insurance under the Medicare umbrella; use that bargaining power to lower the cost of prescription drugs; and ban private health insurance to force all providers to accept Medicare reimbursement rates.

Let's further imagine that he was right about everything—in this world, Medicare for All would have the same administrative costs as today's Medicare; it would bargain as a single unit and force pharmaceutical companies to dramatically lower drug prices for the US market; and it would force every provider in America to accept Medicare reimbursement rates as a condition of participation.

As President Sanders so often pointed out on the campaign trail, Medicare's administration costs are about 2% compared to 12-18% for private insurance. His analysis overstates the difference between the two, but let's ignore the evidence and assume a 15% savings from switching to a single-payer system. Unfortunately for President Sanders, private spending on health insurance—not including out-of-pocket spending—is only about $1.2T out of an annual national health expenditure of $3.8T, so cutting 15% of that shaves only 4.7% off total US spending on healthcare.

Next, let's assume that the Sanders administration has used its immense buying power to cut US pharmaceutical prices in half, which would bring the US roughly in line with the OECD average. Slashing prescription drug costs would create comparable savings for the vast majority of payers. Despite their rhetorical significance, total US spending on prescription drugs was only about $370B in 2019, or around 9% of total healthcare spending. This would also trim only about 4.5% off US healthcare spending.

Finally, private insurance paid out 199% of Medicare rates on average from 2010-2017. Assuming that's been steady since, President Sanders has also cut reimbursement for services by private payers roughly in half. Impressive, but again, private spending on healthcare services is only about 1.6T—that's the $1.2T mentioned earlier plus $400B in out-of-pocket spending by households—less than half of national health expenditure. These savings are offset

somewhat by increases in reimbursement for Medicaid services. On balance, normalizing all payers to Medicare rates would cut off an additional 17% from US national health expenditure.

Taken together, these changes have reduced American spending on healthcare by nearly 26%, to about $8200 every year. This would be a substantial decrease. But even in this world, US consumers still pay more for healthcare than every country in the OECD. US spending would still be nearly double the average, only as taxes instead of premiums.

## What's actually driving costs?

Stepping back into the real world, when Democrats talk healthcare, they don't talk about the cost of services. Instead, they fight with each other over single payer vs. public option and gang up on industry about pharma prices while ignoring the real driver of costs in the American healthcare system—the cost of services. Forcing providers to take Medicare rates is by far the element of President Sanders's plan that generates the most savings, so why do politicians bash pharmaceutical and insurance companies instead of doctors and hospitals?

The easy answer is that voters know their doctor, which makes it hard for politicians to demagogue family physicians compared to pharmaceutical executives. But for every Martin Shkreli there are thousands of dermatologists raking in on average almost half a million a year.

US doctors on average make nearly three times their French peers, and more than twice that of their British colleagues. The US also spends more than twice what Canada and Germany spend per capita on hospital administration. Nurses in the US also make more than their contemporaries across the OECD, but the margins are less stark.

So, is the path to lower overall healthcare spending to cut reimbursement further? To squeeze the hospitals and private practices until they shape up? Even cutting rates that far would drive providers over the cliff. To say nothing o deeper cuts, hospitals' average margin on Medicare patients was -9.9% in 2017.

Despite the bloated salaries of some of the players in the system, salaries are only one contributor to the costs of services. Other factors such as the cost education, spending on end of life care, and overuse of services contribute significantly to the difference in cost of healthcare in US and are completely unaddressed under Medicare for All. In fact, many of these factors would be exacerbated by the Sanders agenda.

Ensuring free, no-strings-attached medical care to every American is certainly a worthy goal, but it would almost certainly increase overall demand for medical services. This is evidenced best by Medicaid expansion, which consistently drives increases in overall utilization and spending when new populations are enrolled. Access to needed medical care is good, but a sudden increase in demand for services without corresponding education or immigration programs for medical professionals gives providers more leverage, not less, to demand high prices for services and justify their high salaries. Likewise, a shortage of providers only reinforces the already exorbitant cost of American medical education.

Similarly, Sanders's plan would eliminate Medicare Advantage (MA) in favor of an entirely fee-for-service system with infinite provider choice. This ignores the reality that MA plans, which operate under a capitated payment model, are quite effective at controlling costs. The estimated lifetime healthcare spending on for 65 year old beneficiaries on Medicare Advantage plans is roughly only two-thirds that of fee-for-service beneficiaries, despite similar life expectancy. Since MA plans aren't empowered to negotiate rates lower than Medicare, they largely create savings—

which fund higher administrative costs, profits, etc.—by limiting the availability of services. Despite that, Medicare Advantage plans are wildly popular. Instead of incorporating the success of value-based care models in reducing costs and maintaining outcomes, Sanders' plan ignores these lessons in service of its clean, utopic vision.

The Medicare for All agenda seeks to wave a magic wand and declare healthcare free and accessible to all without reckoning with the conditions that make healthcare so expensive in the US. To truly reduce the cost of healthcare to be in line with our peer nations, a more comprehensive approach—one that focused less on demagoguing easy boogeymen and more on addressing actual drivers of healthcare costs—is required.

**COREY ALT**

Corey Alt is a freelance health policy consultant

## RELATED POSTS

**What the Left got wrong on Brexit**

June 17, 2021

**What t**

## Get Notified

*Get the latest pieces from Exponents in your mailbox*

Email...

SUBSCRIBE