Insight

Cost Ineffective: Pricing a Single-payer System

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Executive Summary

- Over the past decade, there have been various proposals to change the U.S. health system to "Medicare for All," a type of single-payer system.
- Single-payer health care systems – those for which the government is the sole payer for medical services – are prohibitively expensive and largely do not improve health outcomes.
- While it is possible to entertain broad reforms to the U.S. health care system to improve upon its various inefficiencies, the fiscal burden alone of a single-payer system should rule it out of consideration.

Introduction

Critics of the U.S. health care system often claim that patients would be better off with a single-payer system, under which the government is the sole payer for medical services. These critics argue that such a system would provide high-quality, low-cost, and widely accessible care. Time and again, however, a reality check-up is required. This series has already documented specific issues with single-payer systems' quality of care – and will continue to document the myriad other challenges. Yet even if the introduction of a single-payer system did not worsen health care outcomes, the program's multitrillion-dollar price tag would still render such a system financially prohibitive.

Over the past decade, several "Medicare for All" (M4A) proposals have been proffered, with the most well-known being Senator Bernie Sanders' 2017 proposal and then-Senator Kamala Harris' 2019 proposal. While the details of the plans vary slightly, they had one striking similarity: They were astoundingly expensive – orders of magnitude more than the

$1.9 trillion the federal government currently spends on health care – and would have single-handedly sunk the federal budget, blotting out every other federal program. The Mercatus Center, which evaluated the Sanders plan after it was introduced in Congress, estimated that the plan's cost as a share of GDP would reach 12.7 percent in 2031; the current federal health system, based on a Congressional Budget Office projection from 2024, showed GDP would be only 6.9 percent in 2033 (almost half as much – with a window that extended two years longer).

Sometimes, good policy can be unpopular – while bad policy can be popular, as it is here. According to a KFF poll, 56 percent of Americans initially support M4A when presented with its core idea; this number drops substantially, though, when informed that a government system could lead to delays in care (26 percent support) or higher taxes (37 percent support). These public sentiments are not discussed by politicians, though, when they begin to publicly campaign for the passage and implementation of their single-payer health care proposals.

Analyzing M4A Proposals and Their Financial Implications

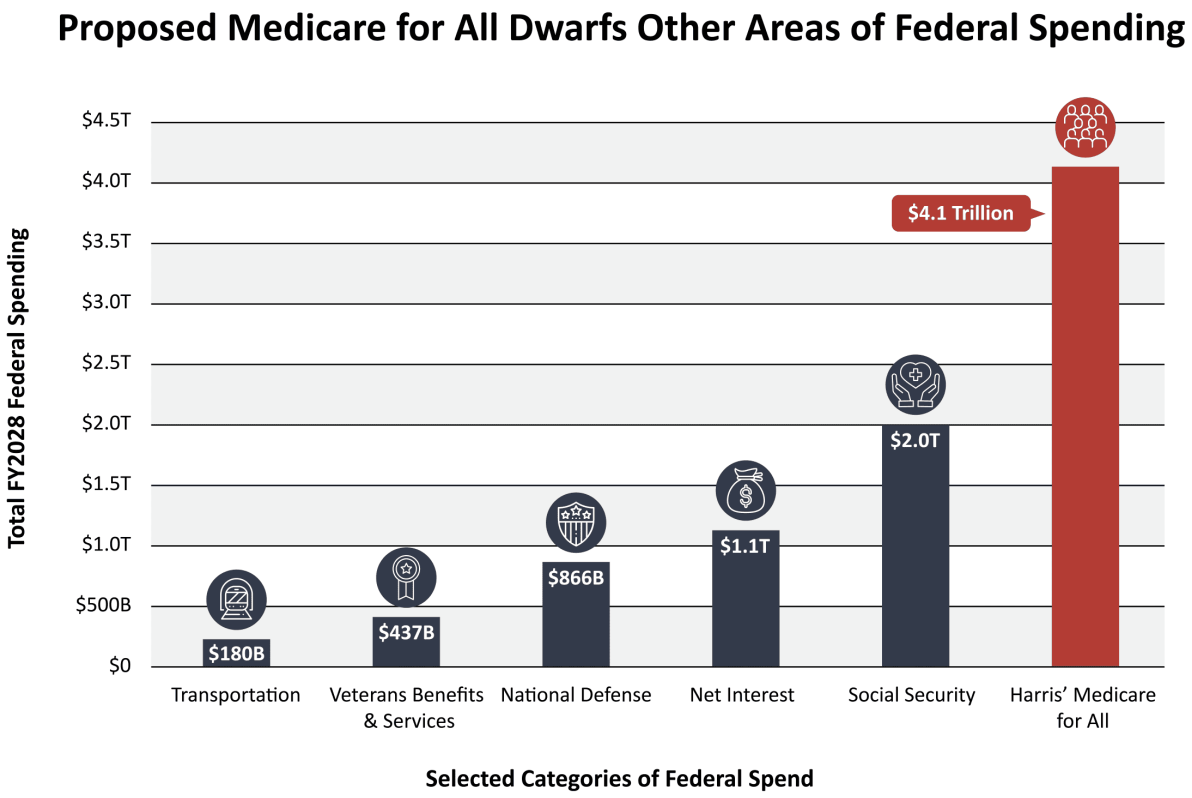
Sanders' plan – originally introduced as legislation in 2017 after his campaign for the presidency – was projected to increase federal spending between $25–$35 trillion from 2017–2026. While the Sanders team predicted the plan would cost the federal government $1.1 trillion per year beginning in 2017, an analysis of the plan by the Urban Institute found that it would cost double Sanders' claim: approximately $2.5 trillion per year over the same period.

Although Sanders' proposal landed with a thud, that didn't discourage others from putting out similar plans. As part of her 2020 presidential run, Kamala Harris proposed her own Medicare for All plan. While a modified version of Sanders' plan, many of the core tenets remained the same, and the few areas that differed did not make the plan more affordable. Take, for example, that the plan doesn't immediately abolish private insurance but regulates it into extensions of existing federal health care programs, which didn't result in any cost savings.

Using data from the Center for Health & Economy, the American Action Forum published a report analyzing the economic implications of this proposal. Harris' M4A plan was expected to increase federal spending by $43.9 trillion over the decade of 2026–2035. After accounting for the projected revenue raised to finance the plan, the net federal cost would be estimated at $2.3 trillion for the year of 2028 and a total net cost of $24.1 trillion between the years of 2028–2035. What's more, under Harris' plan, medical productivity – the efficiency with which health care resources are used to produce health care services or

outcomes – was projected to decrease by 22 percent for the year 2035. This is largely due to the influx of the previously uninsured into the market combined with the dissolution of the health insurance marketplace.

Under the Harris M4A plan, federal spending on health care alone would come out to around $4.1 trillion per year. As one can see, this is more than double the cost of Social Security benefits and dwarfs even national security and veteran spending. This also doesn't account for unforeseen incidents (such as a war or a pandemic) that dramatically alter all levels of federal spending, which could lead to spikes in other federal spending categories.



Where Does the Money Come From?

Financing such a large increase in federal spending that an M4A program would require would necessitate vast changes to federal revenue streams. A 2020 analysis conducted by the Committee for a Responsible Federal Budget (CRFB) found that policymakers would likely need to adopt a combination of approaches to finance the cost of M4A. Below are some single-revenue sources that CRFB suggested could finance part of an M4A proposal:

- *Roughly double the payroll tax:* In 2020, most wage income was subject to a 15.3-

percent payroll tax, divided evenly between workers and employers to fund social insurance programs. CRFB estimated that a new, 32-percent payroll tax, divided evenly between workers and employers and applied to all wages, would raise $30 trillion over the decade of 2021—2030.

- *Establish a 25-percent surtax on adjusted gross income (AGI):* U.S. households pay income tax under a progressive rate structure that ranges from 10—37 percent. CRFB estimates that a 25-percent AGI income surtax on top of the standard deduction would raise around $30 trillion over the decade of 2021—2030.
- *Double all individual and corporate income taxes:* Rather than establish a surtax, the government could double all individual income and corporate tax rates to raise roughly $27 trillion over the decade of 2021—2030. Under this scenario, the bottom of a progressive tax rate structure would be 20 percent, and the top rate would be alarmingly high at 74 percent.
- *Reduce non-health federal spending by 80 percent:* CRFB estimated that financing the full cost of M4A without corresponding tax increases would require cutting the remaining federal budget by 80 percent. Cuts of this magnitude are unrealistic and could not happen on a short timeline, if at all.

Not only is this list not exhaustive, but it also only assesses these policy options in a vacuum. Depending on other ongoing fiscal priorities, world events, or the combination of alterations made to revenue streams, collected taxes may not cover the new federal outlays, which would lead to further federal debt accumulation and increased federal interest payments.

The (Fiscal) Bottom Line

In fiscal year 2023, the federal government collected $4.4 trillion in revenue. Even doubling all current federal income and corporate taxes would not fully cover the estimated cost of M4A, since the federal government would become responsible for the financing of all existing health care outlays, as well as adding all the new spending from private insurers and states.

Setting aside the issues that have been raised regarding reduced quality of care and access, huge structural and economic issues would have to be dealt with: raising trillions in new federal revenue through tax increases, replacing employer-sponsored insurance spending with new government funding, avoiding excessive deficits that could destabilize the economy, managing the necessary changes to reimbursement rates and care coordination, and overcoming public and political opposition.

As if we needed any more reason to avoid a single-payer health care system, the fiscal facts make clear that such a system is unsustainable in the United States.