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Health Care Reform: The Cost of Doing Nothing in South Dakota

Soaring Health Care Costs are Unsustainable for Families and Individuals, Businesses, and All Levels of Government

Skyrocketing health care costs – including insurance premiums, co-payments and prescription drugs – are contributing to the current economic crisis, weighing heavily on South Dakota family, business, and government budgets. Inherited flaws in our health care system have led to higher health care costs, reduced access to care, and inconsistent quality of care throughout South Dakota. Too many South Dakotans live in fear of the astronomical costs they will incur if they or their families experience an unexpected health care emergency.

Eight years of inaction contributed to high health care costs and a rising number of uninsured. This has created economic challenges and risks for:

- [South Dakota's working families and individuals](#), whose medical costs are consuming a larger portion of their wages and leading to unsustainable debt, and who pay a hidden tax to make up for the uninsured;
- [South Dakota's businesses \(especially small businesses\)](#); and
- [South Dakota state and local governments](#) struggling with the responsibility of providing health care coverage and fiscal constraints.

Democrats know that, for our economy to truly recover and prosper, we must help middle-class families, businesses, and federal, state, and local governments cope with skyrocketing health care costs. That's why we are committed to enacting health reform that addresses the health care cost crisis and ensures quality, affordable health care for all South Dakotans and all Americans.

Health care reform is economic reform. If we are to restore our economy and secure our nation's fiscal future, now is the time to make health care affordable for South Dakota and American families, business, and government at every level. The status quo is not working and is clearly not sustainable.

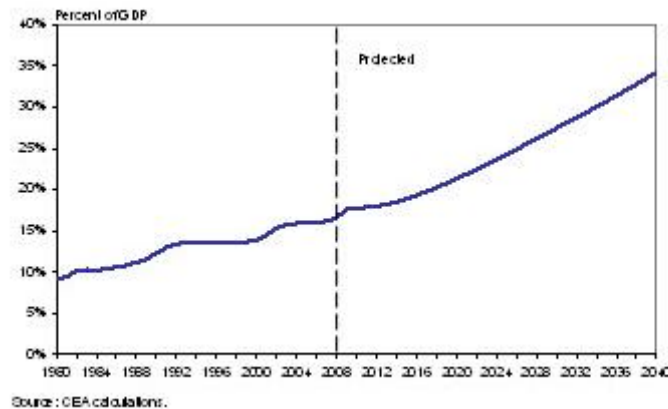
Health Care Spending is Skyrocketing

Real per person spending on health care has been increasing rapidly, rising over 40 percent in the past decade alone. Between 1980 and 2007, the share of gross domestic product (GDP)

devoted to health care almost doubled. In 2004, the most recent year for which state-level data are available, South Dakota spent a total of \$4.1 billion on health care, which represents \$5,327 per person or 14.4 percent of Gross State Product (GSP). [Centers for Medicare and Medicaid Services (CMS), 9/2007, CMS 2/2007] Nationally, in 2007 the country spent \$2.2 trillion on health, which represents \$7,421 per person or 16 percent of GDP. [Health and Human Services, accessed 3/11/2009] This is nearly twice the average of other developed nations. [Organisation for Economic Cooperation and Development, 12/10/2008]

According to the White House: “Virtually all analysts agree that without major reform, health care’s share of GDP will continue to rise rapidly.” The health share is projected to rise to 28 percent in 2030 and to 34 percent in 2040. In 2009, health care expenditures are expected to be approximately 18 percent of GDP. [CEA, 6/2/2009]

National Health Expenditures as a Share of GDP, 1980-2040



[Chart from CEA, 6/2/2009]

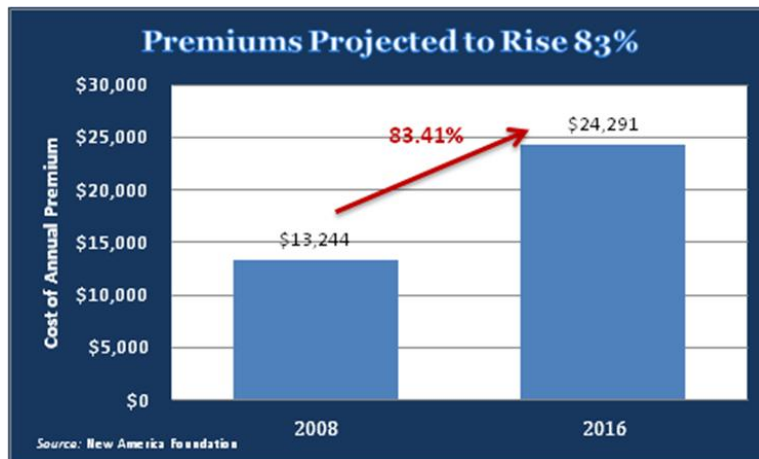
Economic Impact on Families and Individuals

Rising health care costs have consumed a larger portion of wages

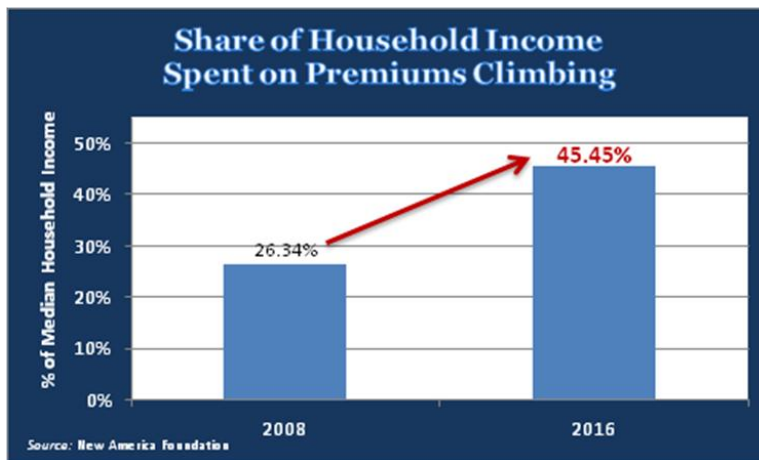
Over the past nine years, premiums for employer-sponsored health insurance have more than doubled, a growth rate four times faster than cumulative wage increases. According to the Kaiser Family Foundation, the average cost of an employer-based family insurance policy premium in 2008 was \$12,680 – nearly the annual earnings of a full-time minimum wage job. [Kaiser Family Foundation, 9/24/2008; HealthReform.gov, 3/2009]

In 2006, the most recent year for which state-level data are available, the average employer-based family premium in South Dakota was \$9,875, compared to a national average cost in 2006 of \$11,381. [Medical Expenditure Panel Survey, accessed 6/15/2009] In 2000, the average cost for this type of coverage in South Dakota was \$6,760. [Medical Expenditure Panel Survey, accessed 6/15/2009]

Another recent study estimates that by 2016 the national average cost of family employer-sponsored health insurance will top \$24,000, an 83 percent increase over 2008 premium levels. [New America Foundation, 11/2008] The same study found that in South Dakota, family insurance purchased through an employer will cost \$16,971 in 2016, an increase of 72 percent above 2006 premium costs. [New America Foundation, accessed 6/15/2009]



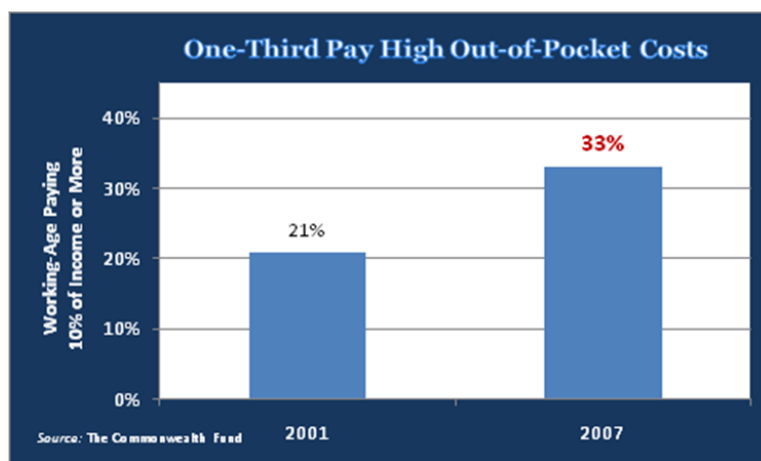
To meet this high cost, at least half of American families will have to spend more than 45 percent of their annual income to purchase health insurance. [New America Foundation, 11/2008] In South Dakota, family health insurance with a price tag of \$16,971 in 2016 would consume 30.5 percent of the projected South Dakota median family income. [New America Foundation, accessed 6/15/2009] This means that more than half of South Dakota families would have to spend 30.5 percent of their income on health insurance alone.



Rising health care costs jeopardize employer-sponsored coverage. When premiums rise, employers have more difficulty providing health coverage, and their workers struggle to afford their share of the cost. With the increased cost of premiums, there has been an erosion of employment-based health coverage. In South Dakota, the percentage of non-elderly individuals with employment-based health benefits decreased from 68.3 percent in 2002 to 63.4 percent in 2007. [Kaiser Family Foundation, accessed 6/15/2009]

Rising health care costs have consumed a larger portion of Americans' wages. According to the White House, the rapid cost growth has led to employers shifting to less generous health care plans. While this would reduce the growth rate of employer-sponsored health insurance premiums, workers must spend a larger fraction of their take-home pay on deductibles and co-payments. [CEA, 6/2/2009]

In 2007, 33 percent of Americans spent 10 percent of their annual income on health expenses, a marked increase from 2001, when just 21 percent of adults were forced to dedicate such a high proportion of their income to health care bills. [The Commonwealth Fund, 8/2008]



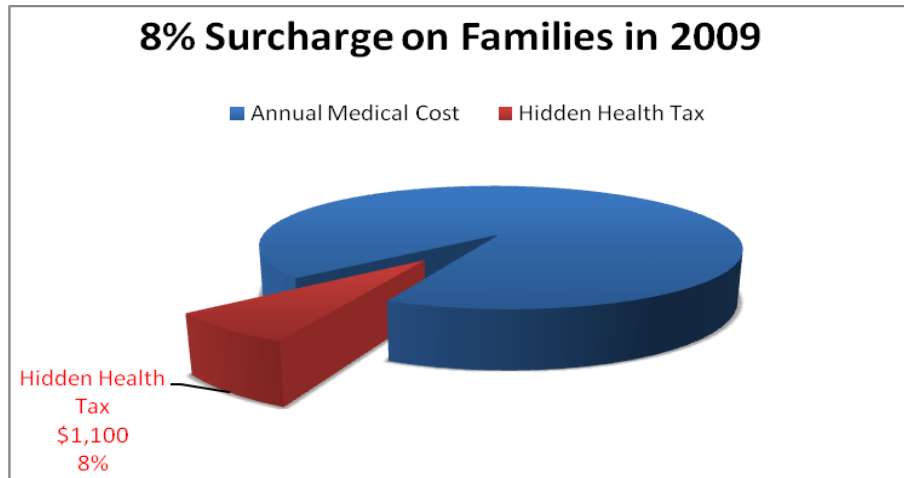
The President’s Council of Economic Advisors recently estimated that a 1.5 percentage-point cut in the annual growth rate of health care costs would raise real GDP by more than two percent in 2020 and by almost eight percent in 2030. That kind of GDP growth would add \$2,600 to a typical family of four’s income in 2020, \$10,000 in 2030, and \$24,300 in 2040. [CEA, 6/2/2009]

Ranks of uninsured create a hidden tax on those with health insurance

In 2007 and 2008, 184,000 South Dakotans – 27.3 percent of all South Dakotans under age 65 – went without health insurance for some period of time. [Families USA, 4/2009] It is estimated that, after out-of-pocket payments and government and charity program contributions, in 2008, the uninsured received \$42.7-47.9 billion worth of uncompensated care from hospitals, doctors, and other providers. [Families USA, 5/2009; CEA, 6/2/2009]

The increasing number of people without health insurance adds to the cost of the health insurance premiums that insured Americans must pay for their coverage. When the uninsured cannot afford to pay the entire cost for the health care they desperately need, these costs are shifted to those who can pay. Doctors and hospitals charge insurers more for the services provided for patients who do have health insurance, and the insurers pass on these shifted costs in the form of higher premiums for consumers and businesses that purchase health insurance, resulting in a “hidden tax.” [Families USA, 5/2009]

In 2009, this cost shift means that family coverage premiums for Americans are an estimated \$1,100 higher; individual coverage premiums are an estimated \$410 higher. [Center for American Progress, 3/23/2009] South Dakota families pay an additional \$1,100 in premium costs due to this “hidden tax,” and individual insurance premiums in South Dakota are \$420 higher.



[Source: Center for American Progress, [3/23/2009](#)]

These figures, of course, were derived before the full brunt of the economic recession inherited from the previous Administration had fully manifested itself. With unemployment on the rise (rising unemployment and job losses caused an estimated 30 South Dakotans to lose their health insurance every day in December 2008 and January 2009 alone), the hidden health care tax could be considerably higher by the end of the year. [Center for American Progress, [3/23/2009](#)] Studies show that each one percent increase in unemployment will result in an additional 1.1 million uninsured. [Kaiser Family Foundation, [4/2008](#)]

Economic Impact on Businesses, Especially Small Businesses

In South Dakota in 2006, 117,035 people were employed by a small business with less than 50 employees – that’s 36.7 percent of the private-sector workforce. [Medical Expenditure Panel Survey, accessed [6/16/2009](#)] Most small business owners want to offer health insurance to their employees and believe it is the right thing to do. Many feel their business would be more productive if they had health coverage for themselves and their employees. But escalating health care costs stand in the way of America’s entrepreneurs and doing the right thing. [National Center for Policy Analysis, [2/11/2009](#)]

A broken health care system leads to lost productivity. A recent study shows that the South Dakota economy loses between \$240 million and \$480 million due to “uninsured Americans who live shorter lives and have poorer health.” [Center for American Progress, [5/29/2009](#)] Current workplace productivity is also affected by the inability of some employees to afford certain prescription medications, due to the increasing health care costs. Several studies show that employees’ who suffer from manageable conditions such as depression, migraines, and asthma, are costly to employers as they result in lost productivity. With roughly 50 percent of non-elderly working adults reporting at least one serious medical condition, inaction will result in continued loss of productivity. [CEA, [6/2/2009](#)]

High health care costs hinder business growth. The cost of health care is holding businesses back, as 40 percent of small business owners have stated that high health care costs have a negative effect on other parts of their business, such as high employee turnover or preventing business growth. [The Main Street Alliance, [1/2009](#)]

High costs are a barrier to offering coverage. One survey found that three-quarters of small businesses that did not offer benefits cited high costs as the reason, with high administrative costs for servicing a very small group of insured individuals greatly contributing to those high costs. [Managed Care Interface, 9/2003] According to a survey conducted by the Robert Wood Johnson Foundation, these higher costs might force over one-third of small business owners to reduce their employees' health insurance benefits. [Robert Wood Johnson Foundation, 12/3/2008]

Fewer firms are offering coverage. Between 2000 and 2006, the percentage of South Dakota small businesses with less than 50 employees offering health insurance coverage to their employees decreased from 32.0 percent to 28.5 percent. [Medical Expenditure Panel Survey, accessed 6/16/2009] This decline is expected to continue as approximately 10 percent of small businesses are considering eliminating coverage during the next year and around 19 percent of companies are planning to do so over the next three to five years. [Wall Street Journal, 5/26/2009] These expected reductions will add to the 13 million employees who are already uninsured by small businesses. [HealthReform.gov, accessed 6/7/2009]

For small businesses, costs increase while availability decreases. Small businesses usually pay premiums that are 18 percent greater than larger companies. Administrative costs account for up to 25 percent of the cost of premiums for some small business health plans, compared to 10 percent for large firms. [National Center for Policy Analysis, 2/11/2009] Many small business owners have begun to reduce coverage or shift more costs to their employees.

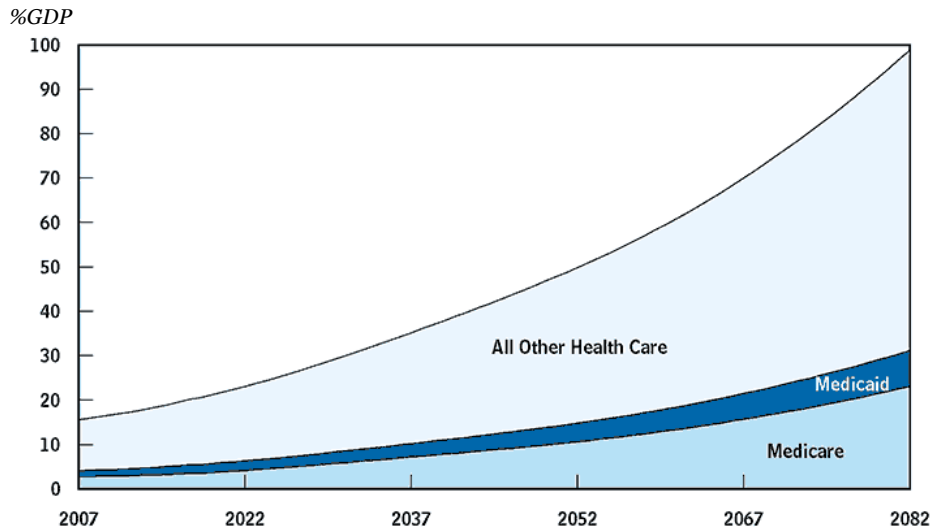
High costs are a drain on payrolls. Small businesses that are able to offer health insurance to their employees find that it is a substantial drain on their payroll, with 40 percent of these businesses spending more than 10 percent of their payroll on health care costs. [The Main Street Alliance, 1/2009] These costs continue to rise, as health insurance premiums rose by 5.5 percent in 2007 and five percent in 2008. [National Coalition on Health Care, accessed 6/7/2009] One survey found that more than one-fifth of small businesses reported yearly premium increases over 20 percent for the past four years. [National Small Business Association, 3/23/2009]

Government Expenditures on Health Care Are Rising To Unsustainable Levels

The Congressional Budget Office estimates that federal spending on Medicare and Medicaid was approximately 4 percent of GDP in 2008. Without a policy change, health care spending is projected to consume 25 percent of total GDP in 2025, just 16 years from now, while federal spending on Medicare and Medicaid will balloon to 7 percent of GDP during that time period.

Projected Spending on Health Care

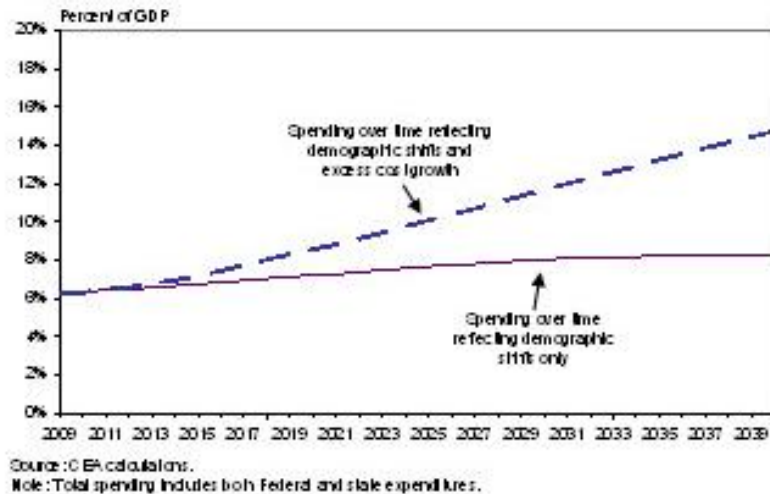
Under an Assumption That Excess Cost Growth Continues at Historical Averages



[Chart from Congressional Budget Office, 1/31/2008]

Almost half of current health care spending is covered by state and local governments. If health care costs continue to grow at historical rates, federal and state Medicare and Medicaid spending will rise to nearly 15 percent of GDP in 2040. According to the White House, roughly one-quarter of this increase would be due to the aging of the population and other demographic effects, and three-quarters would be attributed to rising health care costs.

Projections of Total Spending on Medicare and Medicaid as a Share of GDP, 2009-2040



[Chart from CEA, 6/2/2009]

As health care costs increase and the baby boomers retire, our nation faces a significant long-term imbalance between revenues and spending. In the absence of “potentially painful and harmful large tax increases or cuts in other government spending, these rising deficits will “lower national saving, raise interest rates, and crowd out investment. And, deficits are only a

stop-gap; eventually we would have to choose among tax increases, spending cuts, and repudiation of our debt through high inflation or outright default.” [CEA, [6/2/2009](#)]

White House economists project that, with health care reform, the federal government budget deficit could be reduced by three percent of GDP relative to the no-reform baseline in 2030 assuming that the savings are dedicated to deficit reduction). [CEA, [6/2/2009](#)] Expanding health care coverage would also increase the labor supply, which would tend to increase GDP and reduce the budget deficit. [CEA, [6/2/2009](#)]