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HEALTH REFORM: The Cost Of Doing Nothing

Posted by **KAREN TUMULTY** Wednesday, November 11, 2009 at 12:27 pm

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It's something that doesn't get the attention it deserves in this health care debate, in large part because the true cost of health care is hidden from most people. (Though those of us fortunate enough to have employer-provided health coverage do get an eye-opening, jaw-dropping reminder during our annual **open enrollment period**, which we happen to be in here at TIME. I think I'm speaking for all my colleagues when I say, it's not pretty.)

But **Rob Shapiro**, who was a top economic adviser during the Clinton Administration, puts the cost of doing nothing in a perspective that is easy to understand. According to Shapiro, if things keep going the way they are headed, the typical middle class family could find itself paying one-third of its income for health care within five to six years. **Here's** how Shapiro does the numbers, based on analysis by Urban Institute economist Eugene Steuerle:

According to the CBO, the average family will earn \$54,000 a year in 2016, when a moderate-priced family policy will cost \$14,700. Employers will pay much of that insurance bill for most middle-class families; but that's just a mask, since those employer payments come out of people's wages, not a company's profits. In real effect, a middle class family's earnings in 2016 will come to \$68,700 (\$54,000 + \$14,700), of which \$14,700 or 21.4 percent will go for health insurance. And that won't be their only health-related costs. Their co-payments and other uninsured expenses, on average, will come to another \$5,100. They'll also be paying taxes to help cover other people's health care — 2.9 percent of their cash wages for Medicare (\$1,566), plus perhaps \$750 more in federal and state income taxes for Medicaid and for Medicare costs not covered by the 2.9 percent payroll tax. Add up all of that, and it comes to \$22,116, or 32.2 percent of the middle-class family's adjusted income of \$68,700.

While Steuerle is concerned — rightly so — about provisions in health care reform that will treat people with the same incomes differently, depending on the rules the legislation applies to employers, I'm more incensed about the current, raw deal for middle-class Americans. Why should an average family expect to pay one-third of its income in 2016 on a health care system which, in that same year, should claim 16 percent of our GDP? The biggest part of this puzzle lies in the fact that most of the costs are roughly the same for most people, regardless of their income. The worker earning \$68,700, a manager who makes \$100,000, and the company's CEO who earns \$1 million will all pay the same \$14,700 for their families' health coverage. Their out-of-pocket expenses do rise with income but not by very much; and while the manager and CEO pay more Medicare taxes than our average worker, they all pay at the same 2.9 percent rate. There also are other factors which reduce the burden on other groups — and so tacitly increase it for those middle-class families. For example, people on Medicare and Medicaid bear much lower insurance costs, although they also pay relatively more for their out-of-pocket expenses; and families without children pay relatively less for both insurance and out-of-pocket expenses.

Whatever the causes, the data show clearly that health care costs have become a core economic issue for middle-class Americans. Unless we can contain them, and over time even reduce them, realistic prospects of upward mobility for most middle-class families will simply slip awav. . Health care, in short, has to be an essential part of a new economic strategy.

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