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Repealing Health Care Is a Job Killer

It Would Slow Job Growth by 250,000 to 400,000 Annually

David M. Cutler January 2011

The imminent effort in the House of Representatives to repeal health care reform is a major step in the wrong direction if promoting economic recovery is job one.

The new House leadership proposes to repeal the new health care reform law formally known as the Patient Protection and Affordable Care Act of 2010 and the subsequent Health Care and Education Reconciliation Act of 2010. That combined legislation guarantees health insurance coverage to all Americans and promotes significant cost reductions in public and private medical care programs. It is the culmination of 70 years of effort by Democrats and Republicans alike.

A successful repeal of health care reform would revert us back to the old system for financing and delivering health care and lead to substantial increases in total medical spending. The consequences of this spending increase would be far reaching. It would hurt family incomes, jobs, and economic growth.

Repealing health reform would:

- Increase medical spending by $125 billion by the end of this decade and add nearly $2,000 annually to family insurance premiums
- Destroy 250,000 to 400,000 jobs annually over the next decade
- Reduce the share of workers who start new businesses, move to new jobs, or otherwise invest in themselves and the economy

This memo will review these effects in more detail with a particular focus on jobs.

High medical spending harms employment and economic growth

Before getting to the effects of repeal let's look at how health costs affect the economy. Health insurance costs are a major issue for Americans. Family health insurance premiums have increased 80 percent in the past decade after adjusting for inflation, while median income has fallen by 5 percent.[1] This is among the reasons why American families are increasingly uneasy about the economy. Businesses are worried as well. Small businesses have consistently ranked the cost of health insurance as their number one problem since 1986.[2] Finally, rising medical costs are the major contributor to the long-run federal deficit, and they hamper state and local governments, too.

These costs affect four aspects of economic activity. First, increasing costs reduce net income for workers. The increase in the premiums that employees pay for coverage is most noticeable, but family income is affected in other ways as well. The first response of employers to rising health insurance costs is to reduce salary increases. Salaries for high-income workers have grown less rapidly than productivity as health insurance costs have accounted for a growing share of total compensation.[3]

Less rapid growth of wages is not possible for all workers—many of whom have already experienced stagnant or declining take-home pay. For those workers the only viable response to rising medical costs is reduced employment—both involuntary part-time work and layoffs. Several studies show that health insurance costs and employment are negatively related.

Neeraj Sood, Arkadipta Ghosh, and José Escarce recently compared employment growth across industries in the United States that differ in how likely they are to provide health insurance. They compared employment in the same industries in the United States and Canada, where medical costs are lower and not paid for by businesses. The study found that every 10 percent increase in excess health care cost growth (cost growth above GDP growth) led to 120,000 fewer jobs.[4] In other words, the high and growing cost of health care means that American firms that offer health coverage create fewer jobs than Canadian firms who need not offer these benefits. These results are consistent with a recent study by Katherine Baicker and Amitabh Chandra, as well as estimates from the president's Council of Economic Advisers.[5]

Beyond the impact on employment, high health insurance costs discourage long-term investments in economic growth. Fear of losing health insurance deters people from moving to new entrepreneurial jobs, from retiring when their health deteriorates, or from switching to part-time work as family needs arise.[6] In the public sector, high medical spending crowds out investment in education, transportation, and electronic infrastructure, which translates into slower growth over time.

Health care reform aims to bring rising health costs down, but repealing it would do the opposite and make the above problems worse. The alternative proposals conservatives are offering would lead to continued cost increases as well. I focus primarily on how employment would be affected by health care repeal in this analysis. But the other effects of repeal on the economy are certainly important.

Medical spending is rapidly increasing

Health care analysts are virtually united in their view that medical spending is higher than it should be. They also agree that the approach taken in the Affordable Care Act is the right one to reduce this excessive spending.

Excessive medical spending is seen in several areas. A large literature shows that spending on acute and post-acute care exceeds appropriate levels.[7] To take just a few examples, rehospitalization rates in the nation as a whole average twice what they are in the areas with the best care. Imaging has increased rapidly with little sense of whether prior rates were too low or that current rates are right. And care at the end of life is far more intensive than people and their families desire. Estimates suggest that about 30 percent of acute and post-acute care could be eliminated with no adverse health impact, and in many cases health improvements.

Prevention is also limited. Medications to control hypertension, high cholesterol, diabetes, depression, and other chronic conditions have been available for decades. Yet no more than one in three people with chronic disease are successfully treated. Lack of access to care, high out-of-pocket costs, and an excessive focus on acute illness over prevention are all factors in this poor performance. The result is too many people becoming sick and needing the expensive armamentarium of the medical system.

Finally, administrative costs eat up significant resources that would better be directed elsewhere. Insurance companies' administrative expenses are widely noted. But they are only the tip of the iceberg. Providers incur costs verifying enrollment, adjudicating claims, and ensuring appropriate reimbursement.[8] Estimates suggest that such costs account for as much as 15 percent of overall medical spending.

The Affordable Care Act takes steps to bring costs down

The Patient Protection and Affordable Care Act takes steps to address each of these cost drivers. On the administrative end, the legislation establishes insurance exchanges, mandates minimum loss ratios for insurance companies, and streamlines transactions between medical care providers and insurers. Together, these provisions will significantly reduce the administrative costs of medical care.

By far the most changes are in the Medicare and Medicaid programs. The philosophy underlying the Affordable Care Act is to make Medicare and Medicaid smarter purchasers of medical care so that providers are rewarded for creating value—not just for providing additional services.

The specific changes that promote this philosophical viewpoint include:

- **Payment innovations** including greater reimbursement for preventive care services and patient-centered primary care; bundled payments for hospital, physician, and other services provided for a single episode of care; shared savings approaches or capitation payments that reward accountable provider groups that assume responsibility for the continuum of a patient's care; and pay-for-performance incentives for Medicare providers

- **An Independent Payment Advisory Board** with the authority to make recommendations that reduce cost growth and improve quality in both the Medicare program and the health system as a whole

- **A new Innovation Center within the Centers for Medicare and Medicaid Services, or CMS,** charged with streamlining the testing of demonstration and pilot projects in Medicare and rapidly expanding successful models across the program

- **Profiling medical care providers on the basis of cost and quality** and making that data available to consumers and insurance plans, and providing relatively low-quality, high-cost providers with financial incentives to improve their care

- **Increased funding for comparative effectiveness research**

- **Increased emphasis on wellness and prevention**

The exact amount that will be saved from these provisions is uncertain. Partly as a result of this uncertainty, the Congressional Budget Office, or CBO, and the Office of the Actuary at CMS assume only minor savings. CBO, for example, estimated that the major parts of the law including these provisions will cost $10 billion over the 2010–2019 period, while the Office of the Actuary determined savings of only $2 billion.

Other studies suggest much larger changes. Melinda Beeuwkes-Buntin and I estimate a 1.5 percentage point reduction in cost increases annually from significant health care reform.[9] Similarly, Peter S. Hussey, Christine Eibner, and M. Susan Ridgely in the *New England Journal of Medicine* estimate that savings of more than 10 percent are possible largely from payment reforms like bundled-payment systems.[10] Realizing these savings over a decade implies cost reductions of nearly 1.5 percentage points annually. Finally, a Commonwealth Fund report indicates that provisions like these will slow annual growth in national health expenditures from 6.5 percent to 5.6 percent over the 2010–2020 period.[11]

Taking all these studies into consideration, Karen Davis, Kristof Stremikis, and I estimate that the Affordable Care Act will reduce medical spending by 1.0 percentage points annually, beginning in 2014.[12]

Repealing the law would increase medical spending

Accordingly, repealing health reform would increase spending by the same amount. I also consider a scenario where repeal would increase cost growth by 1.5 percentage points annually to account for the higher estimates in some studies.

The implications of repealing health care for national medical spending (public and private) are shown in Figure 1. Repealing health reform would add $25 billion to spending in 2014 and $185 billion to spending in 2019. The impact on family premiums will be equally large (see Figure 2). Repealing health reform would add 9 percent or nearly $2,000 annually to family health insurance premiums in 2019.

FIGURE 1

National health spending would continue to balloon

Impact of repealing health reform on national health spending, 2011–2019

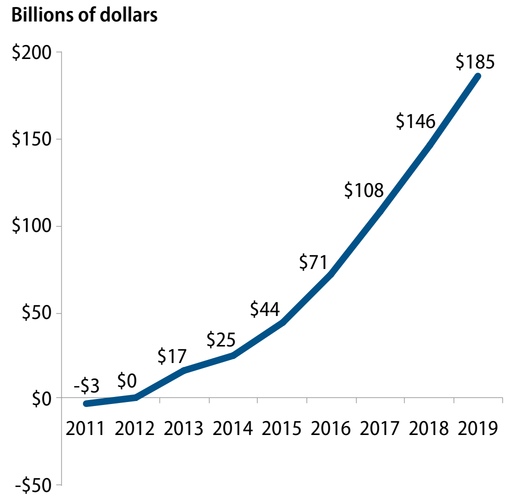
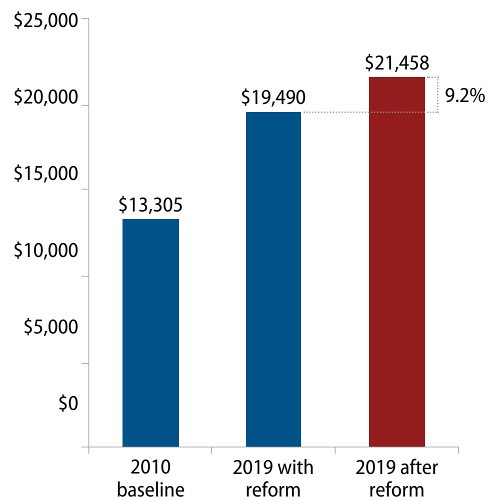


FIGURE 2

Families would continue to pay more for health insurance

Effect of health reform repeal on family health insurance premiums



How health reform repeal would affect jobs

Any proposal that adds $200 billion to our medical spending after a decade will have enormous economic implications. The employment impacts of health care repeal will be particularly severe because many of these costs will fall on businesses. As we've already seen, employers facing higher health costs will hire fewer people, lay workers off, and pay lower wages.

To estimate these employment impacts, I followed the methodology of myself and Neeraj Sood.[13] That paper took estimates of the medical spending change associated with health reform and combined that with the econometric model of Sood, Arkadipta Ghosh, and José Escarce that estimated the employment impacts of changes in medical costs. I use the model to estimate the employment impact of repealing reform.

Figure 3 shows the net impact of repealing health reform on total employment. The baseline estimates show that 250,000 jobs will be lost annually if health reform is repealed. Annual job losses would average 400,000 using the greater estimate of 1.5 percentage point cost increases annually resulting from repeal. Figure 4 shows the estimated employment change by industry in 2016 (omitting health care, which will have more employment). More than 200,000 jobs will be lost in manufacturing and nearly 900,000 jobs will be lost in nonhealth care services.

These job losses are not the only impact of repealing health reform, however. Family incomes would fall by as much as $2,000 annually as medical costs increase beyond forecasted levels. Federal deficits also would rise. The Congressional Budget Office has predicted that repealing health reform would add $230 billion to federal deficits in the next decade because provisions in the law intended to bring down costs would be repealed.

Job transitions would also be affected. Millions of people are "locked" into their current job because they fear becoming uninsured or underinsured if they were to change. Repealing health reform would thus stifle job transitions, new business startups, and movements into and out of the labor force. Millions more workers would be affected.

FIGURE 3

A total of 250,000 jobs will be lost annually if health reform is repealed

Jobs lost from health care repeal, 2011–2019

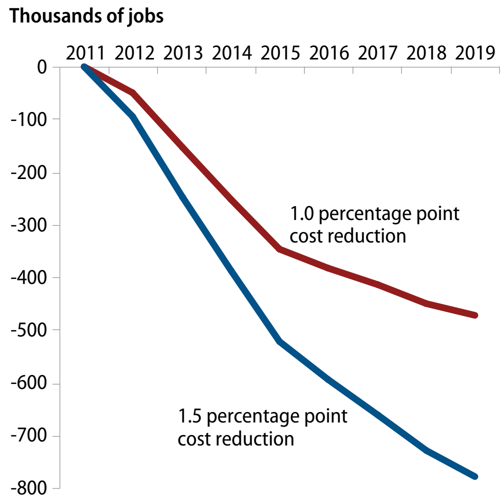


FIGURE 4

Repeal will lead to more than 200,000 jobs lost in manufacturing and nearly 900,000 jobs lost in nonhealth care services

Jobs lost from repealing health reform by industry, 2016

Industry	Change in employment, 2016
Agriculture, mining, and construction	
Agriculture, forestry, fishing, and hunting	-6,026
Mining	-10,738
Construction	-76,339
Manufacturing	-202,109
Trade	
Wholesale trade	-87,750
Retail trade	-154,557
Transportation and communication	
Transportation and warehousing	-66,689
Utilities	-10,219
Services	
Information	-48,606
Financial activities	-141,480
Professional and business services	-231,262
Educational services	-55,808
Leisure and hospitality	-89,638
Other services	-304,537

Conclusion

Medical care accounts for one-sixth of the economy, which means that any health reform that improves the efficiency of medical care will boost economic performance. Conversely, legislation that raises medical spending will be a job killer.

The House leadership has set as one of their first agenda items the repeal of health reform that would guarantee coverage and lower costs. They promise to "repeal and replace" health care reform with an unspecified alternative. The alternative proposals will cost more money than the Patient Protection and Affordable Care Act, however. In some cases, such as malpractice reform, the savings from reform are universally agreed to be modest.[14] In other cases, such as in conservatives' "Roadmap for America's Future" budget plan, the savings to the government come from shifting costs to individuals—not from lowering costs overall. This alternative would increase medical spending under any viable scenario.

The implications of these plans for employment are profound. If successful, the effort to repeal health care reform would reduce employment by 250,000 to 400,000 jobs annually over the next decade and lower wage growth. Our economy has recently lost millions of jobs and wages for almost all workers have stagnated for years. The effects of repeal would add more medical burdens to the public and private sectors.

That is bad economic policy. The effort to repeal health reform will make our current problems worse.

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Endnotes

1 Data on premiums are from: Kaiser Family Foundation and the Health Research and Education Trust, "Employer Health Benefits, 2010 Annual Survey" (2010); data on median income and inflation are from: Bureau of the Census, *Income, Poverty, and Health Insurance Coverage in the United States: 2009* (Department of Commerce, 2010), available at http://www.census.gov/prod/2010pubs/p60-238.pdf.

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4 Neeraj Sood, Arkadipta Ghosh, and José Escarce, "Employer-Sponsored Insurance, Health Care Cost Growth, and the Economic Performance of U.S. Industries," *Health Services Research* 44 (5) (2009): 1449–1464.

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12 David Cutler, Karen Davis, and Kristof Stremikis, "Health System Impacts of Health Reform Proposals" (New York and Washington: The Commonwealth Fund and the Center for American Progress Action Fund, 2009).

13 David Cutler and Neeraj Sood, "New Jobs Through Better Health Care" (Los Angeles and Washington: The Center for American Progress Action Fund and the Leonard D. Schaeffer Center for Health Policy and Economics, 2010).

14 Michelle Mello and others, "National Costs Of The Medical Liability System," *Health Affairs* 29 (9) (2010): 1569–1577. This article estimates that medical malpractice as a whole adds only 2 percent to national medical spending. Malpractice reform would not eliminate all of this cost.