

# Do-It-Yourself Single Payer Economic Analysis

Prepared by Leonard Rodberg, PhD, Professor Emeritus of Urban Studies, Queens College/CUNY, and Research Director, NY Metro Chapter, Physicians for a National Health Program

I have developed a spreadsheet that allows you to **perform your own economic analysis of a single payer plan for your state**, or for the United States. Using this simple procedure, you will be able to answer the question that all single payer advocates face: **Can we afford it?**

In four steps, **you will be able to estimate the cost and savings of such a plan and develop a financing plan** that will provide the necessary funds. All required documentation is contained in the spreadsheet which can be found at [http://www.infoshare.org/main/DIY\\_Single\\_Payer\\_Economics.xlsx](http://www.infoshare.org/main/DIY_Single_Payer_Economics.xlsx)

The spreadsheet uses five worksheets in sequence. In each worksheet, you will find some cells with a **bright red font. Default values are suggested, but you can modify them to see the impact of variations or to suit your own projection of their values.** In all other cases, we have used authoritative, usually governmental, sources for the values shown. **Results** computed by the spreadsheet are shown with a **blue background**. Once you have entered your data and viewed the results, you may want to vary the user-defined values to see how sensitive the results are to variations in them. The **Appendix** shows the values that may be entered by the user.

The analysis proceeds through five worksheets. A step-by-step guide leads you through them. They are:

## I. Current and projected spending under existing conditions

First you **specify which State**, or the United States, you want to analyze. If you wish, you can then proceed immediately to look at the results for your state, using the default values I have provided.

If you now wish to insert your own values for some of the parameters, the first step is to view the estimates of current health care spending, including where the funds are coming from. This is done for you using data from the Centers for Medicare and Medicaid Services (CMS), which collects and publishes current spending for each state by type of service (hospitals, physicians, drugs, etc.) and by source of funds (Medicare, Medicaid, private insurance, etc.). CMS also develops projections of national spending but does not provide these at the state level.

Assuming that the single payer plan goes into effect several years from now, we need projections from existing data. Now in 2017, we have actual data up to 2014, while CMS has produced national projections through 2025. In this spreadsheet, we project forward using the state trends up to 2014, assuming that each type of spending continues to grow at the same rate in the near future as it has in the past. To obtain projections for data that the government does not provide at the state level -- especially out-of-pocket spending and administrative costs -- we use the national projections of the ratio of these costs to total spending. That is, we assume that the proportion of these costs for each state are the same as the average for the nation as a whole.

## II. Savings from implementing a universal single payer plan

Health care **administrative costs** will be greatly reduced as a single public financing system replaces multiple private insurers. Providers of health care services, including hospitals and physicians, will save the cost of hiring billing clerks and staff to deal with multiple insurance companies and collecting deductibles and copays from patients. Studies of these savings have been done and links are given in the Notes. Estimates of the administrative cost for the new system, the percent savings for providers, the percent **savings on drug costs**, and the **reduction in fraud** are presented. Each of these can be varied to see what its effect is on overall costs and savings.

## III. Additional costs from the expansion of coverage, and the net savings the plan will achieve

**Persons who are uninsured or underinsured will be fully covered** under the plan, so this additional cost must be estimated. The uninsured already receive some care -- the usual estimates are that they receive about one-half of what the insured receive -- so this must be taken into account in making this estimate. Also, most single payer proposals **eliminate all cost sharing** (deductibles, copays, coinsurance), because these expenses impose barriers that prevent people from receiving necessary care without (as many studies show) reducing the overall cost of the system. So an estimate of the **additional utilization** resulting from the elimination of these barriers must be estimated. (While one can imagine great increases in utilization when care becomes fully free, in fact, it is limited by the number of physicians and other providers who are available to serve the newly-insured; the history of Medicare shows that there is a shift in who receives care, from the wealthy to the poor, but little rise in overall utilization.) We also include **funds to support workers who are displaced** as a result of the simplified billing system.

## IV(A&B). Two financing plans to provide the necessary funds for the plan

We assume a progressive tax-based financing plan using a “sigmoid” shape that requires low payments from low-income individuals, with the tax rate rising as income increases and flattening out at high incomes. If you wish, you can modify the two Curve Factors to change this shape.

The spreadsheet shows two possible forms that the health care tax can take: (A) an **individual income tax** on salary and wage income, along with a **tax on non-payroll unearned income** (dividends, rents, pensions, etc.), and (B) a **payroll tax**. Income taxes are, as we know, difficult to compute, and it is not easy to include an employer contribution to an individual income tax. Payroll taxes are easy to compute, and employer contributions can be readily included, but payroll taxes may provide a disincentive for employers to hire new workers. This spreadsheet gives information on both. Income and payroll information for each state is provided to allow calculation of the taxes needed to supply the necessary funds to replace private insurance premiums and out-of-pocket payments.

The single payer program will **pay the Part B premiums** for Medicare recipients, since there is no incentive for them to pay these themselves when they can receive free care through the new system. The spreadsheet will include this when calculating the tax rates.

## **V. Summary**

A final worksheet provides a summary of these computations.

**Acknowledgement:** I want to acknowledge the work of **Gerald Friedman**, whose study of the New York Health Act provided the structure around which I built this analysis. I also want to acknowledge the fundamental work of **David Himmelstein and Steffie Woolhandler**, who have shown us, through their detailed studies conducted over many years, how wasteful is our current multi-payer private insurance system and how greatly our health care and our economy will benefit through transition to a public single payer system.

**Please send questions, comments, and suggestions to [lrodberg@gmail.com](mailto:lrodberg@gmail.com).**

## APPENDIX

### Values to be Entered by User (or defaults accepted) Defaults

#### I. Current & Projected Spending

State	New York
Year program goes into effect	2021

#### II. Savings

Cost of administering single payer program	2%
Employer cost of administering private insurance	4%
Hospital savings in administrative costs	10%
Physician savings in administrative costs	10%
Other care savings in administrative costs	10%
Savings in drug & medical product costs	33%
Savings through reduce fraud	2%

#### III. Added Costs & Net Savings

Current spending on the uninsured compared to the insured	50%
Expected uninsured rate in year program starts	4%
Should physician fees be raised to private insurance levels?	Yes
Cost of support per displaced worker	\$15,000
Should long-term care in included in the plan?	Yes
Percentage of unpaid personal care converted to paid care	50%

#### IV(A). Financing by Income Tax

Should non-payroll income be taxed?	Yes
Projected annual growth rate in personal income	4.5%

#### IV(B). Financing by Payroll Tax

Should non-payroll income be taxed?	Yes
Employer portion of payroll tax	80%