WATCHDOG

Study: 'Medicare for all' proposal would cost $32.6 trillion over 10 years, lead to massive tax hikes

Andrew Burger

August 28, 2018

A new study from the Mercatus Center calculates the total cost, and lays out the likely ripple effects, of U.S. Sen. Bernie Sanders' proposed “Medicare for All” (M4A) legislation.

Key among the highlights is that M4A would add $32.6 trillion to federal budgetary commitments during its first 10 years of implementation, an amount that even a doubling of projected individual and corporate federal income tax revenues would fail to cover.

In percentage terms, the cost of implementing M4A would equate to about 10.7 percent of projected U.S. GDP in 2022. That would rise to nearly 12.7 percent in 2031, and continue to rise over the course of ensuing years, **according to the study**, authored by Charles Blahous, senior research fellow at the Mercatus Center at George Mason University.

“It's a big number, but certainly nothing unexpected. The study results are right in line with those of an Urban Institute study published about two years ago, and resemble those from studies in California and Vermont,” Robert Graboyes, a Mercatus Center senior research fellow and Health Care Scholar, told Watchdog. Graboyes helped produce the study.

M4A would, over a period of years, bring some 250 million people under a universal, single-payer Medicare insurance program operated by the federal government. That includes all those who have private medical insurance through their employer and the uninsured, as well as those already covered by Medicare.

M4A would eliminate the deductibles and co-pays those who are insured pay to insurers for health care. It would also extend health care insurance coverage to include dental, vision and hearing, which Medicare and most private insurance policies do not cover.

In addition to providing universal coverage, Sanders, D-Vermont, and the bill's co-sponsors assert that M4A would simplify and streamline the U.S. health care insurance system. The result would be greater efficiency, less abuse of the system, and hence lower costs.

“We make no such assumption,” Graboyes said. “Frankly, efficiency isn't something the federal government is famous for.”

Several factors would fuel the sharp rise in federal budget commitments that would result from implementing M4A, the study highlights.

First and foremost, the federal government would become responsible for financing nearly all current national health spending, including individual private insurance and state spending.

M4A would increase federal health spending on the currently uninsured as well as those who now carry insurance by providing first-dollar coverage of their health care expenditures across the board, without deductibles or co-payments.

M4A would dramatically expand the demand for health care services, consistent with economics research findings that the more of an individual’s health costs are covered by insurance, the more services they tend to buy, irrespective of the services’ efficacy and value.

Enactment of M4A would have many and varied effects on states and taxpayers, according to Graboyes. He pointed out that states pay a substantial amount of money into Medicare and Medicaid, which presumably would shift to the federal government.

In addition, private employees with health insurance and employers currently pay a considerable amount of money for health care plans in the form of premiums, deductibles, co-pays and other out-of-pocket expenses. Presumably, that would also shift to the federal government, Graboyes said.

M4A also would likely lead to an increase in demand for health care treatment and services, according to the study.

“Exactly how much more people would demand services I think is anyone's guess, but I imagine there would be a push upwards in demand because people would no longer have to pay for services directly," he said. "The elimination of deductibles and co-pays is likely lead to higher demand.

To pay for it, the federal tax structure would have to change, including higher taxes, Graboyes said.

“It could very well have a downward impact on the U.S. economy and the long-term economic growth rate," he said. "Say, for example, an income tax hike is implemented. That's a disincentive for economic production.”

Sanders and M4A co-sponsors have yet to specify exactly how the costs of implementing M4A would be paid for and managed. Sanders set out a list of potential financing options late last year, however. Among those is a 7.5 percent payroll tax on employers, a 4 percent individual income tax, and a variety of new taxes on wealthier Americans and corporations.

Sanders also said M4A would be the end of large tax expenditures associated with healthcare insurance, such as the ability to deduct insurance premiums from income, which would effectively add trillions of dollars to the federal treasury.

Under M4A, the federal government would also seek to dramatically reduce reimbursements paid to health care insurers and service providers.

That's likely to reduce the willingness and ability of insurers to offer coverage, and of service providers to offer treatment. In addition, it's likely to result in significant reductions to the range of medical and health care services offered, as well as reductions in the overall quality of medical and health care nationwide, according to Graboyes and other experts.

Furthermore, implementing M4A might completely eliminate the need for private insurers, or they may wind up essentially as arms of the federal government agency charged with managing the M4A system.

“Any tiny benefits that Sanders’ 'Medicare for All' proposal might deliver to some groups would be totally wiped out by its crushing new taxes, higher administrative costs, and dangerously low-quality care,” Michael Cannon, director of health policy studies at the Cato Institute, told Watchdog.

Contrary to Sanders' assertions, Medicare administrative costs are far greater than they are for private health insurance companies, according to Cannon. In addition, raising taxes to finance healthcare imposes what he calls a “dead-weight loss” on the economy that amounts, on average, to about 44 percent of the taxes raised. The dead-weight loss is higher – 52 percent – for individual income taxes specifically.

That “dead-weight loss alone overwhelms the administrative costs of private health care insurance, which the federal government has done a lot to inflate in the first place," Cannon continued. Furthermore, M4A's administrative cost “would rise even further as tax rates more than double to cover all the new government spending Sen. Sanders’ proposal would require.”