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Michael F. Cannon: Busting the Bay State: Hiding the cost of health reform

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HEALTH CARE'S silly season is upon us. If we can be sure of anything, it is that President Barack Obama and his congressional allies will do whatever they can to hide the cost of their health plan. Lucky for them, former Massachusetts Gov. Mitt Romney, a Republican, has shown the way.

In 2006, Romney enacted a health-reform package strikingly similar to what Democrats are pushing through Congress, including individual and employer mandates, private health-insurance subsidies, broader Medicaid eligibility and a new health-insurance "exchange." Lately, Massachusetts officials have been forced to raise taxes and cancel some residents' coverage to pay for it all. Local headlines are decrying "the forbidding arithmetic of health-care reform."

Supporters at the Massachusetts Taxpayer Foundation say the cost isn't nearly as high as many people think. A recent foundation report claims that "The cost of this achievement has been relatively modest and well within early projections of how much the state would have to spend to implement reform."

In *The Boston Globe*, foundation president Michael J. Widmer writes, "Between fiscal 2006 and 2010, the annual incremental cost from the state budget is less than \$100 million, a modest sum for this historic achievement." Widmer was kind enough to walk me through his organization's estimates. As it turns out, there's more than just a little sleight of hand involved.

First, the "annual incremental cost" — \$88 million — is not the total amount that the law added to the state budget each year, but the average increase from one year to the next. In other words, the total "cost from the state budget" in 2009 is not \$88 million but three times that (\$264 million).

Second, that average "incremental cost" assumes the state will cut payments to safety-net hospitals by \$200 million next year. We'll see about that. Safety-net hospitals are already suing the state for more money. Set aside those assumed savings, and the cumulative "cost from the state budget" for 2009 is actually \$408 million.

But the larger problem is that the "cost from the state budget" ignores 80 percent of the total cost of RomneyCare. As Widmer explains, state officials only have to scrape up about 20 percent of total new

spending themselves. The federal government — which is to say, taxpayers in other states — kicks in another 20 percent through the Medicaid program.

The remaining 60 percent appears in no government budget. It is new “private” spending that individuals and employers must undertake according to the law’s dictates. That brings the total cost of RomneyCare to at least \$2.1 billion in 2009.

Both Widmer and his organization’s report do mention that the law spurred employers to spend an additional \$750 million on employee health coverage. But that only accounts for about two-thirds of new private spending. Moreover, they describe that mandated private spending as a benefit of the law, rather than a cost.

Instead of a bargain, RomneyCare is therefore far costlier than conventional wisdom suggests. Beacon Hill is eliminating health coverage for 30,000 legal immigrants, and contemplating a sweeping overhaul of how medical care is purchased, organized, and delivered, just to cope with one-fifth of the law’s cost.

Neither is RomneyCare terribly cost-effective. The law covered an estimated 432,000 previously uninsured residents in 2009. That means Massachusetts is covering the uninsured at a cost of about \$6,700 per person, or \$27,000 for a family of four. The average nationwide cost of an individual policy (\$2,600 in 2007) and an employer-sponsored family policy (\$12,700 in 2008) are fractions of those figures.

RomneyCare demonstrates how hard it will be for Congress to scrape up even 20 percent of the cost of the Democrats’ health plans. The Massachusetts experience also counsels that when Democrats produce a health plan that costs a mere \$1.5 trillion, the actual cost will be even higher.

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