

Single and individual payers

- 1 Two questions about costs
 1. Why are the costs of health care increasing faster than the general rate of inflation?
 2. Why does health care cost more in the US than in other countries?
- 2 Figures from the Krugman and Wells article¹

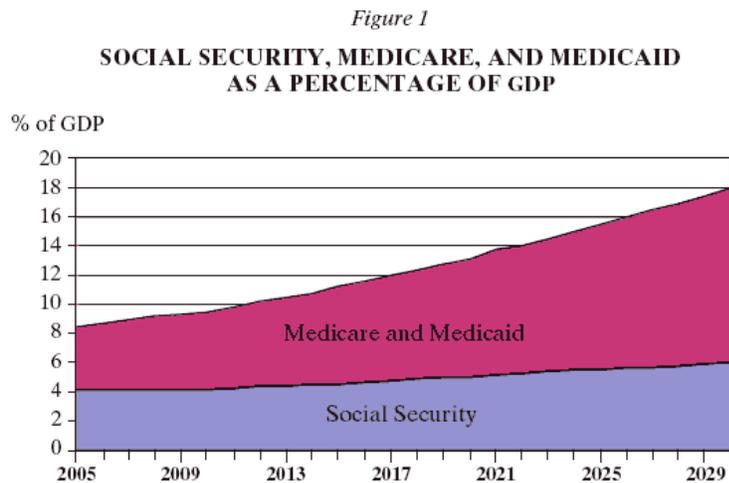
Table 1

INTERNATIONAL HEALTH COMPARISONS

	Canada	France	UK	US
Health spending per capita, 2002	\$2,931	\$2,736	\$2,160	\$5,267
Private share of spending	30%	24%	17%	55%
Life expectancy	79.7	79.2	78.1	77.1
Infant mortality per 1,000 births	5.2	4.5	5.0	6.8
Physicians per 1,000 people	2.1	3.3	2.0	2.7
Nurses per 1,000 people	9.9	7.0	9.0	8.1
Hospital beds per 1,000 people	3.2	4.2	3.9	2.9

Source: Organization for Economic Cooperation and Development, OECD Health Data 2004

¹ Paul Krugman and Robin Wells, "The Health Care Crisis and What to Do About It," *New York Review of Books* 53(5) March 23, 2006.



Source: Congressional Budget Office.

3 Do individuals make good decisions or not?

“Both economic theory and evidence from the RAND Health Insurance Experiment (HIE) and other studies suggest that such a reduction in spending would result in little if any worsening in health outcomes.”²

“A classic study by the Rand Corporation found that when people pay medical expenses themselves rather than relying on insurance, they do cut back on their consumption of health care—but that they cut back on valuable as well as questionable medical procedures, showing no ability to set sensible priorities.” (Krugman and Wells, p. 8)

² Jason Furman, “Health reform through tax reform: A primer.” *Health Affairs*, 27(3), p. 624. See also Jonathan Gruber, *The Role of Consumer Copayments for Health Care: Lessons from the RAND Health Insurance Experiment* (Kaiser Family Foundation, 2006).

4 Costs of nongroup insurance

“Administrative expenses are twice as high in nongroup markets as in group markets. The costs are higher because insurers in this market spend considerable resources on medical underwriting, and economies of scale are lost. It is much more expensive to sell insurance to millions of individuals one individual at a time than it is to sell to a much smaller number of employer groups, each comprising thousands of employees. For a typical family that moves from group to individual coverage, therefore, the move to nongroup insurance will raise premiums for an identical policy by more than \$2,000 per year.”³

³ Thomas Buchmueller et. al. “Cost And Coverage Implications Of The McCain Plan To Restructure Health Insurance.” *Health Affairs* (Published online September 16, 2008).

