Winning Health Care for All
On Martha's Vineyard

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I am grateful to my colleague, Deborah Socolar, for many valuable insights.

INTRODUCTION

Good evening, and thank you for inviting me to speak with you.

Our state has remarkable health care resources: fine hospitals, skilled physicians and other caregivers, and enough money to finance all needed services for all of our citizens.

Yet we also face serious health care problems: the rising cost of insurance, large numbers of uninsured people, looming financial problems and even bankruptcy for many hospitals, soaring prescription drug costs, and others.

These are problems we face today, at the peak of the longest economic boom in our history. What will happen at the bottom of the next recession?

How can we cover everyone, contain cost, preserve needed hospitals and other caregivers, improve quality, and make health care durably affordable for the years ahead?

And how can we do these things on Martha's Vineyard, with its particular opportunities and problems?

I would like to focus on three areas—saving needed hospitals, covering prescription drug costs, and—particularly—protecting more people against the costs of health care—three areas where people on this island can change things for the better without waiting for Washington or Beacon Hill to act.

I. SAVING NEEDED HOSPITALS

A. Problem

A surprising number of Massachusetts hospitals and beds have closed in recent decades. Our state had 127 acute care hospitals in 1970 but has only about 75 today.

We had almost 24,000 acute care beds in 1970, but have only about 14,000 to 15,000 today. And we will need more in the near future—not fewer—as the baby boomers age.

Many of the surviving hospitals and beds are at risk of closing.

B. Causes

1. Hospital costs are high in this state. We would save $3 billion yearly if we spent at the national average. Hospital costs here jumped to 42.3 percent above the national average per person in 1998.[1]

I don't recommend that we cut the excess spending now, but we should use the money we've got to keep open all needed hospitals.

2. Opportunism (low hospital occupancy rates invite payors to force hospitals to bid down their prices) + ideology (the free market knocked down the Berlin Wall, so it can fix health care also). But there is no free market in health care.

3. The myth that hospital closings save money. Yet the lower cost hospitals are more likely to close, and hospitals with more money in the bank are more likely to survive. Fixed costs persist after a closing, and variable costs follow the patients to costlier surviving hospitals.

C. Solutions

It is not sound for any hospital to continue to depend for its survival on a small group of individuals, however well-intentioned.

Similarly, it is not sound for a local hospital to merge with a larger hospital system in hopes of securing needed money. The loss of local control too easily allows another corporation to pull the plug when it claims it has no other choice.

And hospitals cannot keep asking for special legislative help or big premium increases each year. Across the state, there is enough money for health care and enough to keep open all needed hospitals. We just have to spend it better. That is not easy but it is possible.

These things should be done:

1. Identify all needed hospitals. The state commissioner of public health should be given this job, by law. The presumption should be that all surviving hospitals are needed unless proven otherwise.

2. Identify which hospitals are at risk—at risk of closing, of losing needed services or capacity, or of suffering diminished quality of care.

3. Hospitals appearing on both lists need immediate help. They would qualify for aid from a new statewide revolving trust fund. The fund would be financed not with tax dollars, but with money from a statewide one-quarter of one percent assessment on all hospitals. That would generate about $30 million yearly—not enough to bail out a huge teaching hospital, but enough to help stabilize many smaller community hospitals needed by their communities.

4. A hospital receivership law, that would allow responsible state or local officials to petition a court to conserve and protect a hospital from creditors, long enough to allow it to reorganize and continue to provide good care. It is a great thing that Attorney General Tom Reilly yesterday endorsed just such a law.

5. A sounder method of paying hospitals, one that guarantees every needed hospital enough money to remain in business and provide good care, as long as it is operated efficiently.

6. An increase in the number of insured people, so hospitals can provide needed care to all, without financial penalty.

II. MAKING MEDICATIONS MORE AFFORDABLE

A. Problem

1. One-quarter of all Americans have no insurance for prescription drugs.

2. Drug spending is now rising 17 percent yearly.

B. Causes

1. U.S. drug prices are the highest in the world. And people without insurance pay higher prices than do insured Americans.

2. Drug makers' profits are the highest of all U.S. industries, year after year.

3. Drug makers paralyze government action by claiming that they need high profits to finance vital research, and that they earn high prices in a free market.

4. Neither claim is true.

Profits don't finance research. Profits are what's left over after paying for research, manufacturing, marketing, and other things.

And there's nothing close to a freely competitive market for medications, owing to patent monopolies, suppression of generic alternatives, and other practices in the industry. Without either a free market or government action, we have anarchy. And it is anarchy that allows unnaturally high prices and profits.

C. Solutions

1. State or federal legislation to set or negotiate much lower drug prices—down to the actual prices prevailing in the average wealthy nation, for a fair level.

2. State and federal dollars to buy drugs for patients who can't afford even the discounted prices won in step 1.

3. Guaranteed revenue and profits for drug makers—at levels adequate to finance all needed research and to pay profits adequate to retain capital.

4. Payments to drug makers to cover extra manufacturing cost of additional pills—about 5 percent of retail price, we estimate.

5. For Martha's Vineyard, which cannot secure lower prices on its own, the main way to prevent suffering is to buy needed drugs for patients who can't afford them. The towns or the county might, together, add a dime to the property tax. That will generate about $500,000—enough to make a difference. More on this soon.

III. PROTECTING MORE PEOPLE AGAINST THE COST OF HEALTH CARE

A. Problem

You are familiar with the details from the Center for Survey Research study of insurance coverage on Martha's Vineyard.[2]

Total and by age

	statewide	Martha's Vineyard	MV as % of state
total	8.1%	18.1%	223.5%
age 0-5	4.4%	11.0%	250.0%
age 6-18	7.1%	15.5%	218.3%
age 19-39	13.7%	33.7%	246.0%
age 40-64	7.1%	17.5%	246.5%

Breakdown of people by age, if 15,000 people now live on the Vineyard:

Age of people without insurance	% of total	people (if 15,000 year-round)
0-5	4.3%	117
6-18	13.8%	375
19-39	45.3%	1,229
40-64	35.8%	971
65+	0.9%	24
total	100.0%	2,715

by employment

Percentage uninsured (aged 18-64)	
Now working	24.6%
Not now Working	21.7%

Estimating the annual cost of covering the estimated 2,715 year-round residents now lacking health insurance

The cost of health insurance coverage per person is estimated between:	$1,500	$2,000
Yielding a total cost of insuring the 2,715 estimated uninsured people:	$4,072,500	$5,430,000
But assume that one-third of the cost can be covered by a combination of existing programs (like Mass Health and subsidies to employers), and by payments from employers and workers.		
This leaves a net cash cost of:	***$2,715,014***	***$3,620,018***

The actual cost per person could be somewhat higher or lower than that presented here.[3]

Several assumptions underpin these estimates. First, about 18 percent of the people without insurance are children, and their costs are relatively low. Second, experts in the insurance industry have stated that costs of insurance on Martha's Vineyard should be relatively low, in part because patients are typically admitted to relatively low-cost hospitals.[4]

B. Causes

Why do people lack health insurance coverage?

Seldom from choice. Working Americans overwhelmingly opt for health insurance when it is offered.

Few uninsured workers (only 8 percent of employed people without insurance) had been offered insurance but turned it down.[5]

And, in my experience, employers almost always offer it when they can afford to do so.

Most people employed without health insurance coverage work for employers who can't afford to offer it, or they are self-employed and make too little money to afford coverage themselves. They are not helped by the federal policy that allows only one-quarter of the cost of insurance for self-employed people to be tax-deductible currently.

Employers that can't afford to offer insurance tend disproportionately to:

- operate in highly competitive, lower-profit lines of business,

- operate labor-intensive businesses in which workers absorb a large share of the cost of doing business, or

- employ relatively low-wage workers.

These factors make the additional cost of health insurance coverage very burdensome.

That is because buying health insurance is like paying a tax for each worker employed.

The businesses just described are most likely to lack the profits needed to shoulder the high costs of buying health insurance coverage for the relatively large number of lower-wage workers they employ.

This is important. Buying health insurance coverage at even $5,000 per family is

- a 25 percent add-on to the cost of hiring a worker who makes $20,000 annually,

- but only a 10 percent add-on to the cost of hiring a worker who makes $50,000 annually.

Insurance for smaller businesses can also be priced in ways that charge very high premiums to businesses that have experienced high health costs in the past. Smaller businesses also can suffer higher administrative costs when buying insurance.

A final factor is the high cost of health care in Massachusetts. Health care in this state costs about $6,100 per person, on average—about 30 percent above the national level.

C. Solutions

There are five main types of solutions—five main ways to generate the dollars to expand insurance coverage:

- employer mandates
- single payor
- medical savings accounts
- incremental state- or federally-financed access expansions
- doing something else

1. Requirement that employers purchase health insurance. This is usually called an employer mandate. Gov. Dukakis and Sen. McGovern included one in their 1988 universal health care law. The Clintons included one in their proposed 1993 national health care law.

Neither was wildly popular with small businesses. And that is easy to understand, in light of the analysis just offered.

Although employer mandates remain popular in some quarters, it is hard to imagine a political push to try them again after two strikes.

2. Single payor plan. All money is pooled in one reservoir and used to cover all people. Administrative and clinical waste are reduced—freeing up resources so that benefits are expanded. This would probably work,[6] but it is not going to be legislated right away, so let's talk about other approaches.

3. Medical savings accounts. Conservatives, free market theorists, and some physicians like these, though for very different reasons. The trouble is that they don't do anything to make more money available to buy health insurance for people who don't have it today. So let's not talk about them.

4. Incremental state- or federally-financed access expansions. Examples include proposals to cover the parents of children offered health insurance under a new federal program. These don't seem to be going very far, very fast.

5. That leaves us with local approaches. Martha's Vineyard may be able to help itself.

A very high share of year-round residents lack health insurance. The rate is roughly two and one-quarter times the state-wide average.

But you have a unique resource as well—the enormous assessed valuation of your local real estate. And a very great share of this (over half in at least three towns, I am told by informed parties) is owned by people who do not live here year-round, but who benefit from the availability of workers who live here year-round, and struggle to get by without health insurance.

As the exhibit shows, the six Martha's Vineyard towns ranked 1, 3, 5, 7, 9, and 13 statewide in their assessed value per capita. If the six towns together were treated as one town, they would rank 6th among all Massachusetts 351 cities and towns.[7]

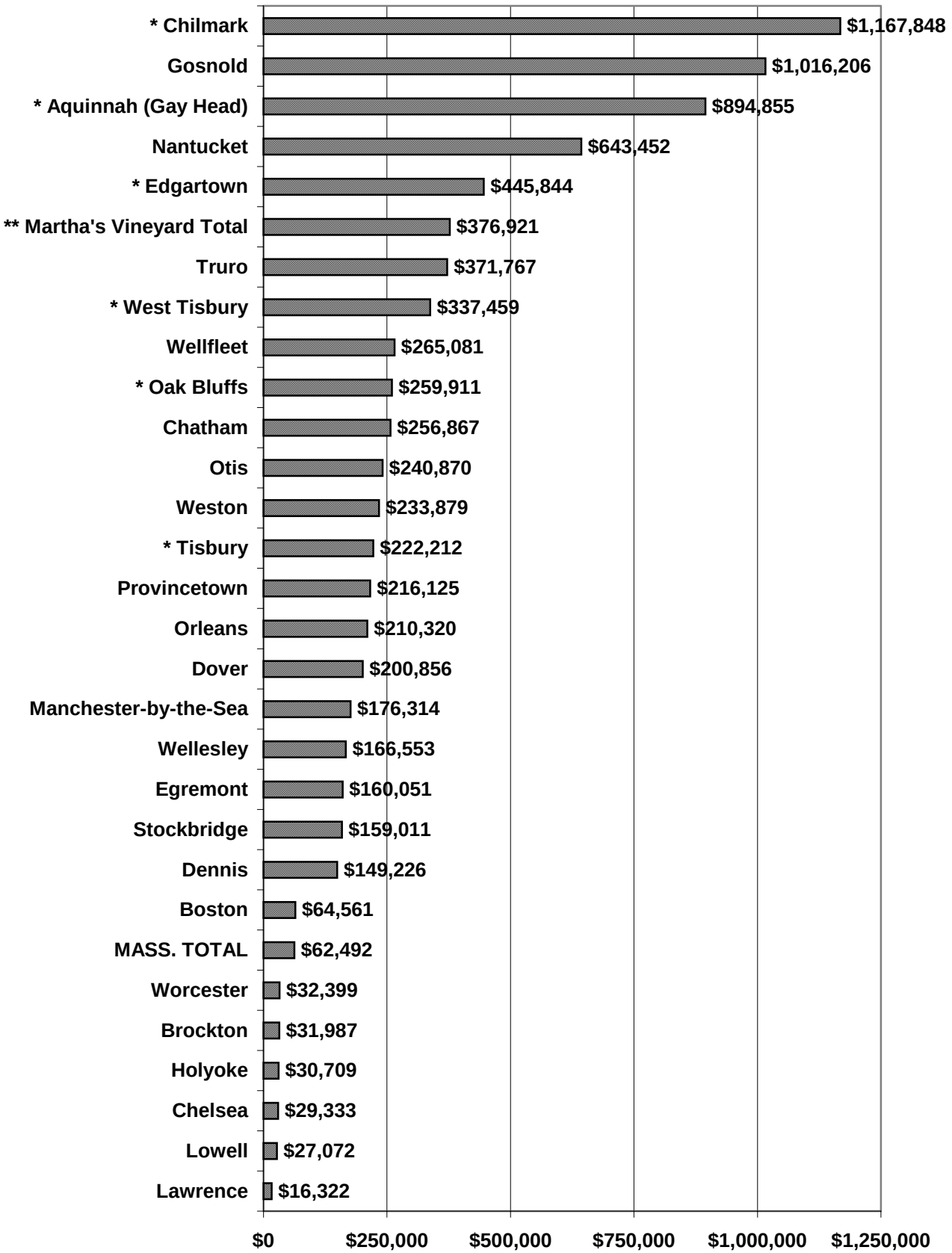
As a whole, the Vineyard's assessed value per capita was 6 times the statewide average. Its average property tax rate is only 46 percent of the statewide average.

This means that substantial sums can be raised through the property tax—sums that could help finance health insurance coverage for employees and employers who cannot afford it today.

How substantial? As the exhibit shows,

- a 10 cent property tax rise in each town yields almost $500,000 annually, for the island as a whole
- a 25 cent rise yields almost $1,250,000 annually, and
- a 50 cent rise yields almost $2.5 million each year.

ASSESSED VALUE/CAPITA, 1999



In 1998, the total property tax levied by the six towns was $38.9 million.

The average tax rate was about $7.84 per thousand dollars of assessed value.

So the 4,961,038,000 (almost $5 billion dollars two years ago) in assessed value, multiplied by the average tax rate of $7.84/$1,000 of assessed value, generated an island-wide property tax levy of $38.9 million.

The 10, 25, and 50 cent tax rises mean an increase of 1.3 percent, 3.2 percent, and 6.4 percent, respectively—viewed across the entire island.

- A 50 cent tax rate rise translates into a $50 increase per year for a home with a taxable assessment of $100,000.

- The same 50 cent tax rate rise translates into a $500 increase per year for a home with a taxable assessment of $1,000,000.

Raising the property taxes on Martha's Vineyard is a progressive and fair method of generating the dollars to help underwrite the cost of health insurance. By contrast, relying on traditional insurance financing is very regressive and unfair, for the reasons discussed earlier.

In reality, an increase of, say 50 cents per thousand dollars in assessed values would mean that the percent increases would be smaller in the towns with higher property tax rates now, and would be greater in the towns with the lower property tax rates now.

Property tax money would not have to do the whole job. Everyone should pay their share. But if everyone pitches in, the money can be found.

The JSI report estimates that from $1.9 million to $5.2 million would be needed to subsidize individual and family enrollment in health insurance.

The needed subsidy would depend on participation in existing state programs, the size of the subsidy, the number of people who choose to participate, and other factors.

It seems clear that most—and possibly all—of the required subsidy could be financed by increases in the local property tax rates on the island.

My own estimate, calculated earlier, is that $2.7 to $3.6 million would be needed to round out the financing required to cover everyone.

Judging the desirability of doing so is a political decision—as it should be and must be. Proposition two and one-half over-ride votes would be required.

If this approach is taken, a number of issues demand deliberation:

1. How should summer workers be treated? Should their health insurance costs be covered as well? If so, how should those costs be financed?

2. If the property tax is raised, should individual towns shoulder the burden, or is a county-wide assessment preferable (if it is legal)? How would the costs and the benefits compare from town to town? And is that a real issue, given that people who live in one town are likely to work in another town, and for people in another town?

3. Is there a risk that people who need health insurance will migrate to Martha's Vineyard? That's hard to say. This isn't Hawaii—either in distance from the mainland or in year-round climate—or in year-round job availability or housing availability. On balance, I would not expect a substantial migration.

4. Would some employers drop their own insurance coverage and rely instead on the new tax-subsidized program? That would require close examination. Were that to happen, compensatory measures might have to be undertaken.

5. How would summer residents react? Some would probably resent the higher taxes, but others would be glad that all year-round workers had health insurance.

6. Would property values be depressed by the higher taxes? Probably not, given the small size of the increases that would be needed to finance heath insurance for all year-round residents.

7. If property tax rates were raised modestly to help finance health insurance coverage, to what extent would that tend to make it somewhat harder to raise those rates to finance other worthy things, such as affordable housing, conservation, and the like?

Despite these important questions, using the property tax to help finance health insurance coverage on Martha's Vineyard is worth considering and debating—for at least seven reasons:

1. Effective federal or state action to lower substantially the number of uninsured people is unlikely.

2. Uninsured people and their employers can't afford health insurance without some form of subsidy. But no alternative financing source for health insurance subsidies seems to be on the horizon.

3. The island's property tax base constitutes a remarkable and unusual source of revenue.

4. Most of the money raised though the property tax increase would come from off the island. And most of it would be spent on the island, where it would have a multiplier effect on overall economic activity and incomes of at least 2.00.

5. The money is raised disproportionately from people who do not live year-round on the island, but who do benefit from a full range of services, including health care—and home maintenance, infrastructure, and rest—when they are on-island. Therefore, the rise in actual property tax payments by year-round residents is relatively small, compared to the health insurance benefits they will enjoy.

6. The money raised would help to sustain the hospital, the physicians who practice on the island, and other caregivers. More insured people means more purchasing power for health care, which makes it easier to retain a greater critical mass of caregivers.

7. This tax would have clear benefits. People would get needed health care. That means less pain, suffering, and early death. We would be proud of ourselves if we could accomplish that.

Thank you for the opportunity to present these ideas.

NOTES

[1] Alan Sager and Deborah Socolar, *Massachusetts Hospital Costs per Person Have Risen Much Faster than the National Average, 1997 – 1998,* Boston: Access and Affordability Monitoring Project, Boston University School of Public Health, 15 December 1999.

[2] Anthony M. Roman, *Survey of Insurance Status for Martha's Vineyard: Methodology and Results,* Boston: Center for Survey Research, University of Massachusetts—Boston, October 1999.

[3] The costs presented here rest in large part on personal communications from HMOs and health insurors in the Commonwealth.

[4] Personal communications.

[5] John Snow, Inc., *Martha's Vineyard Health Plan: Phase I Feasibility Report,* Boston: JSI, November 1999, Exhibit 2-5.

[6] Alan Sager, Deborah Socolar, David Ford, and Robert Brand, "More Care at Less Cost," *Boston Globe, Focus,* 25 April 1999.

[7] All data on assessed value, tax rates, debt, and the like are drawn from Massachusetts Taxpayers Foundation, *Municipal Financial Data, 29th Edition*, Boston: The Foundation, September 1999.