

# HEALTH POLICY PROGRAM

## FACT SHEET

January 15, 2008

### “WHY THE STATE’S BUDGET GAP SHOULDN’T DERAIL HEALTH CARE REFORM”

#### *Background and Analysis*

**Peter Harbage, Len M. Nichols, and Leif Wellington Haase\***

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On January 15, 2008, the *San Francisco Chronicle* featured an opinion piece authored by Leif Wellington Haase and Peter Harbage of the New America Foundation. The article, titled “Why the state’s the budget gap shouldn’t derail health reform,” presented several statistics on the importance of health reform. This document offers the underlying support for the statistics used in their argument.

The article is available on New America’s Web site at:

[http://www.newamerica.net/publications/articles/2008/why\\_budget\\_gap\\_shouldnt\\_derail\\_health\\_care\\_reform\\_6565](http://www.newamerica.net/publications/articles/2008/why_budget_gap_shouldnt_derail_health_care_reform_6565)

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**NAF Analysis: “A recent study by researchers at the Harvard Medical School found that previously uninsured Americans slowed declines in their health when they became eligible for Medicare.”**

**Background:** According to a recent study published in the *Journal of the American Medical Association*, “In this study, acquisition of Medicare coverage was associated with improved trends in self-reported health for previously uninsured adults, particularly those with cardiovascular disease or diabetes.” The gains from insurance were so profound that “by age 70 years, predicted health differences between previously uninsured and insured adults were reduced by half.”

*Source: Michael McWilliams et al., “Health of Previously Uninsured Adults After Acquiring Medicare Coverage,” JAMA. 2007;298(24):2886-2894.*

**NAF Analysis: “The American Cancer Society has linked lack of insurance coverage to later screenings for cancer and lower survival rates.”**

**Background:** According to the American Cancer Society, “There is substantial evidence that lack of adequate health insurance coverage is associated with less access to care and poorer outcomes for cancer patients.”

*Source: Elizabeth Ward, “Association of Insurance with Cancer Care Utilization and Outcomes.” Published online Dec. 20, 2007, and in the Jan/Feb 2008 issue of CA: A Cancer Journal for Clinicians (Vol. 58, No.1).*

**NAF Analysis: “A recent update to a report by the prestigious Institute of Medicine (IOM) estimates that about 22,000 Americans, or roughly 3200 Californians, die each year as a direct result of lacking health insurance.”**

**Background:** This information is based on a new report by the Urban Institute, which found that: “In 2002, the Institute of Medicine (IOM) estimated that 18,000 Americans died in 2000 because they were uninsured. Since then, the number of uninsured has grown. Based on the IOM’s methodology and subsequent Census Bureau estimates of insurance coverage, 137,000 people died from 2000 through 2006 because they lacked health insurance, including 22,000 people in 2006.” The report goes on to suggest that an alternative methodology shows that as many as 27,000 people die annually in the US due to their insurance status.

*Source: Stan Dorn, “Uninsured and Dying Because of It: Updating the Institute of Medicine Analysis on the Impact of Uninsurance on Mortality,” Urban Institute, 2008.*

The California-specific number is not offered in any of these reports. The New America Foundation derived this number by taking the 22,000 deaths and assigning California its portion based on its 2006 share of the non-elderly uninsured in the US (the number of uninsured in California divided by the total number of uninsured in the U.S.). We found this share to be 14.3%. The number was then rounded to 3,200 California deaths.

*Source: Statehealthfacts.org*

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**NAF Analysis:** “Another IOM study calculated that the lost human capital related to lack of health insurance—including lost earning potential and the value of extra years of life—is as much as \$170 billion nationally, updated to 2006 numbers, or roughly \$26 billion for California’s share.”

**Background:** For this number, we started with the Institute’s of Medicine’s range of \$65 billion to \$130 billion, as estimated for 2001. We then took the rate of growth in the US Gross Domestic Product and applied that to the base year. This resulted in an updated range for 2006 of \$85 billion to \$170 billion.

*Sources: Institute of Medicine, “Hidden Costs, Value Lost: Uninsurance in America.” 2003 & US Department of Commerce, Bureau of Economic Analysis, GDP Table Creator.*

The California specific number is not given in the IOM report. It is derived by taking the product of:

- A normalized share of California’s uninsured based on the 2006 CPS data, calculated as: the percentage of non-elderly uninsured in California (20.73%) divided by the corresponding percentage for the US (17.81%), which equals 1.16.
- California’s share of the US GDP in 2006: 13.14%.

This product (15.24%) is then multiplied by the range of GDP savings, producing a low-end range of \$13 billion and an upper range of \$26 billion.

*Sources: Statehealthfacts.org & US Department of Commerce, Bureau of Economic Analysis, GDP Table Creator.*

**NAF Analysis:** “As a study released last year by the McKinsey Global Institute in San Francisco showed, even after adjusting for relative wealth the U.S. spends hundreds of billions more on health care than other countries and delivers no better, and often worse, health outcomes.”

**Background:** According to the almost 100-page report by the McKinsey Global Institute, “Despite higher costs, the United States does not deliver objectively better quality and access for US citizens as a whole relative to peer countries. This global comparative analysis therefore suggests that major opportunities for cost improvement—even if not the full \$480 billion—are as possible as they are necessary, given the pressures of fiscal imbalances, demographics, and rising health costs.”

*Source: McKinsey Global Institute, “Accounting for the Costs of Health Care in the United States,” January 2007. [http://www.mckinsey.com/mgi/reports/pdfs/healthcare/MGI\\_US\\_HC\\_fullreport.pdf](http://www.mckinsey.com/mgi/reports/pdfs/healthcare/MGI_US_HC_fullreport.pdf)*

**NAF Analysis:** “State health spending is the fastest growing area in the budget, rising almost 9 percent annually on average in recent years.”

**Background:** This growth figure is based on the ten-year growth stream for a variety of health related spending categories of the California general fund. The categories with spending during the last 10 years (including the current year) are:

- Department of Health Services
- Department of Developmental Services
- Department of Mental Health
- Managed Risk Medical Insurance Board
- Department of Alcohol and Drug Programs
- General Obligation Bonds – Health
- Emergency Medical Services Authority
- Secretary for Health and Human Services
- Office of Statewide Health Planning Development
- California Medical Assistance Commission
- Department of Managed Care
- Area Boards on Developmental Disabilities

The spending for these categories in the 1997-98 budget was \$8.4 billion. The spending for these categories in the current budget year is given as \$20.3 billion.

For this ten-year period, the New America Foundation calculated the compound average growth rate to be 9%.

*Source: California Legislative Analyst’s Office, Historical Data Source, [http://www.lao.ca.gov/laoapp/LAOMenus/lao\\_menu\\_economics.aspx](http://www.lao.ca.gov/laoapp/LAOMenus/lao_menu_economics.aspx).*