

To: Warren Gunnels, policy director to Senator Bernie Sanders
 From: Gerald Friedman, Professor of Economics, University of Massachusetts at Amherst
 Re.: United States can afford single payer health care program
 Date: January 17, 2016

Several financial issues have arisen with respect to Secretary Clinton’s attack on the Sanders health program.

1. *Estimating program cost.* Because of the slowdown in health care spending since the beginning of the Obama Administration, it is possible to fund the single payer program at a lower cost than previous estimates. The breakdown of 10 year costs under the existing regime and with a single payer program (in billions) is given in Table 1:

Table 1. Cost of single-payer, 2017-26 based on revised CMS projections

Old CMS projections for 2017-26	\$	51,501
Reduced spending because of slowdown in health care spending	\$	4,096
New CMS personal health care expenditures	\$	47,405
Savings from single payer program, net of universal coverage costs	\$	6,310
Total program cost at actuarial rate of 98% ¹	\$	40,942
Continuing government spending	\$	27,169
New public spending including assumption of Medicare Part B premiums now paid by seniors and the disabled	\$	13,773

The net savings from single payer come from reduced spending on administrative activities, in both private insurers and providers’ offices, reduced spending on monopoly prices for pharmaceuticals and medical devices, and a slowdown in the growth of spending because of controls on administrative costs and drug prices. While these savings come to over \$10 trillion in 10 years, they are offset by increased spending because of the extension of coverage to the uninsured and increases in utilization with the removal of copayments and deductibles.

2. *Financing the program.* The \$13,773 billion 10-year program does not require that level of additional revenue because replacing employer-provided health insurance with a public program will also remove trillions of dollars of tax expenditures going with the tax deduction accorded employment-related health insurance premiums. After taking account of \$3,092 billion in reduced tax expenditures, only \$10,682 billion need be raised. The proposed program has a small surplus; it is itemized in Table 2 which gives average annual revenues and spending.²

¹ It is assumed that 20% of out-of-pocket spending is for activities that would not be covered because they are deemed not medically necessary.

² While the program has a small surplus, there would be a large and growing surplus that is not indicated here because income tax revenues will rise with faster economic growth when the burden of health insurance premiums is removed from employment, and when workers are freed of “job lock” associated with employer-provided health insurance leading to increased entrepreneurial activity and a better match of workers to employment.

Table 2. Average annual financing Sanders single payer, 2017-26 (in \$billions)

Additional Federal Spending	\$ 1,377
Reduced tax expenditures	\$ 309
2.2% income-based premium on households	\$ 210
Payroll at 6.20% income based health care premium paid by employers	\$ 630
Progressive Income Tax Reforms	
Responsible Estate Tax Act	\$ 21
Taxing capital gains and dividends the same as income from work	\$ 92
Limit tax deductions of the rich	\$ 15
Progressive income tax rates	\$ 110
Net (surplus)	\$ (10)

3. *It is possible to calculate the savings to families from the Sanders single payer program.* For a middle-class family of four with an income from wages of \$50,000 and an employer-provided family plan of an average price, the Sanders program would save \$5,807, or 12% of income.

Table 3. Savings for families from Sanders single-payer plan³

Family Income	\$ 50,000
Health insurance premiums	\$ 4,955
Health insurance deductibles	\$ 1,318
2.2% income-based premium on households	\$ 466
Savings	\$ 5,807
Savings share of income	12%

4. *Employers would save money, giving them an incentive to hire more workers.* Instead of paying premiums for employer-provided health insurance that often come to well over 10% of payroll, employers would pay only 6.2% towards financing the program. In the case of a worker who earns \$50,000 and has an average family health plan with \$12,591 employer contribution, the employer would save over \$9,400 per worker.

Table 4. Employer savings under Sanders health plan, employee earning \$50,000 with average family insurance plan.

Premiums currently paid by employer	\$ 12,591
Payroll at 6.20% income based health care premium paid by employers	\$ 3,100
Savings to employer	\$ 9,491

³ These calculations are made assuming the average employer-provided family plan with the average employee contribution. The 2.2% income tax applies to taxable income as currently defined. In calculating taxable income for a married couple with two children, it has been assumed that they use the \$12,600 standard deduction and a personal exemption of \$4,050 per family member for a total of \$28,800. The 2.2% tax is applied to the remainder.