“AFFORDABLE” HEALTH CARE

I’ve been seeing a bunch of single, relatively young men with comfortable incomes argue that the health care reform is “affordable.” But seeing Nate argue that the high costs the middle class is still being asked to bear under the Senate health care bill is just a matter of “having to cut back on vacations, entertainment and meals out versus filing for bankruptcy or losing one’s home,” I wanted to hit the question of affordability one more time, to show that this isn’t a matter of eating home more often, but rather of precisely the debt problems that Nate says reform will prevent.

Here’s a version of one family’s total household costs under the plan: a middle class family with two cars and some child care costs. Note, in this scenario, I’m assuming the middle class family will pay 7.9% of its income for health insurance premium, significantly less than the 9.8% the plan assumes that family could pay to get the subsidies available. This, then, shows what a family would be required to pay (or incur a penalty) under the 8% opt-out rule.

301% of Poverty Level: $66,370

> Federal Taxes (estimate from this page, includes FICA): $8,628 (13% of income)
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> State Taxes (using MI rates on $30,000 of income): $1,305 (2% of income)
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> Food (using “low-cost USDA plan” for family of four): $7,712 (12% of income)
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> Home (assume a straight 30% of income): $19,275 (30% of income)
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> Child care (average cost for just one pre-school child in MI): $6,216
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> Health insurance premium: $5,243 (7.9% of income, max amount before opt-out w/o penalty allowed)

> Transportation (assume 2 cars, 12,000 miles each, @IRS deductible cost of $.55/mile): $13,200*
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> Heat, electricity, water: $1,500
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> Phone, cable, internet: $1,200
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> **Total: $64,276 (97% of income)**
>
> Remainder (for health care out-of-pocket, debt, clothing, etc.): $2,091

In other words, assuming this family had **no** debt (except for that related to the two cars), **no** clothing costs, and **no** other necessary costs–all completely unrealistic assumptions–it would be able to incur just $6,970 of medical care out-of-pocket costs before spending all that $2,091 and going into debt (the opt-out is based on an insurance plan that provides 70% of costs, so this assumes the family will pay 30% of health care costs). Yet that family would be expected to spend up to $5,882 **more** out of pocket before the "subsidies" started picking up its out-of-pocket expenses. (If the family paid the full 9.8% of its income on premiums–at which point it would become eligible for subsidies under the plan–it would have just $825 left to spend on all other expenses, including health care out-of-pocket expenses.)

This family couldn't even go through a normal childbirth without going into debt.

Now, a few words about these costs. The transportation costs, while based on official numbers, seem high. But since I've used MI numbers–which are cheap compared to other states–for state income tax and child care, I thought it fair to assume this family had two fully average car mileages with associated costs.

The utilities costs are based on my own costs for a 1000 square foot, very well-insulated home, with the winter thermostat set at 64 degrees, and with no air conditioning use.

The one expense in here that might be high are the telecom costs—which I figured at $100/month. That amount would pay either a Comcast phone/basic cable/internet package, or a land line plus a family cell phone package with no internet or cable. So if a family did without any cable package, used dial-up internet access, and had only an emergency cell phone, the family might get by paying $45/month instead of the $100/month I've calculated.

Note what these calculations don't include: First, there's no budget line in here for vacations, and while the mileage probably would allow for visits to family, it would not otherwise allow for vacations. It also doesn't allow for any meals out—the low cost food basket used to generate this cost assumes "all meals and snacks are prepared at home." It also assumes the family doesn't spend as much money on some more expensive food items—like sweets—that most Americans eat more of (the low cost food basket includes 58% fewer sweets calories than actually consumed). Admittedly, by assuming the family might have basic cable, it includes some entertainment costs, but even if it cut that expense, it would only save $360/year, not enough to pay the out-of-pocket costs expected under the plan.

In other words, this family is not doing without vacations or meals out to pay for health care: it is driving an unsafe car; it is eating less than even the USDA says it would spend; it is not paying off its existing debts. All of those things are ways for the middle class to fall out of the middle class. And this is all before it incurs any significant health care costs!

This is why the experience from MA is so critical: 21% of people surveyed had forgone necessary medical care in the previous year because of cost. That's presumably what would happen with this family. It would pay almost 8% of its income for insurance premiums, already taxing its budget, but it would be unable to get any care aside from what did not incur any out-of-pocket care. This family would basically spend over $5,000 a year for yearly check-ups.

Obviously, this does not take away from the fact that the poor will get health care, with subsidies more realistically set to income levels. It does not take away from the biggest group of uninsured will get some kind of coverage. For those, reform is a vast improvement.

But for the middle class—those above 300% of poverty—this remains unaffordable, and the mandate threatens to put those families into debt without giving them health care in exchange.

*As dagoril pointed out in comments, the IRS is lowering the mileage deduction for next year from $.55 to $.50. So as of next week, these calculations would change, suggesting this family would spend $12,000 on transportation, giving them another $1,200 to spend.