

# Population Growth and Obamacare

## What They Mean to the American Taxpayer

July, 2012

As America staggers away from the Great Recession, high healthcare costs persist. While there are many drivers of ever-escalating prices, this article focuses on population growth, a causative factor not well recognized. How to care for ever more people is one of those thorny problems that won't go away as the nation wrestles with out-of-control health care expenditures.

Now that the U.S. Supreme Court has ruled that The Patient Protection and Affordable Care Act (better known as "Obamacare" or ACA) is constitutional, the path is clear to fully implement the law. Unfortunately, this hard fought legislation overlooks a grand opportunity to wring out hundreds of billions of dollars from the nation's healthcare bill not only by insurance company competition, but also by better population management.

For some this might seem to be a strange connection: "I didn't know population growth had anything to do with healthcare costs." However, the relationship is very obvious once you zoom in. This study illustrates how burgeoning demographics make the job of cutting Medicaid costs and lowering health insurance premiums harder with each passing year.

To get a bird's eye view of our population challenge, consider this February 2008 statement from the Pew Research Center, "If current trends continue, the population of the United States will rise to 438 million in 2050...and 82% of the increase will be due to immigrants arriving between 2005 to 2050 and their US-born descendants." In 2009 the U.S. Census Bureau placed the mid-century head count at slightly less than 400 million.

Irrespective of the different numbers, the U.S. PopClock suggests the nation is on the upward ascent in headcount, having reached 313.8 million (as of July 2012) and growing rapidly. Despite encouraging signs of declining illegal entries to the US and a slowing fertility rate ascribed to the Great Recession, the trajectory of growth is still headed off the charts, causing the nation's healthcare bill to do the same. The findings in our study suggest there is a way for the nation to fix the problem.

### Background

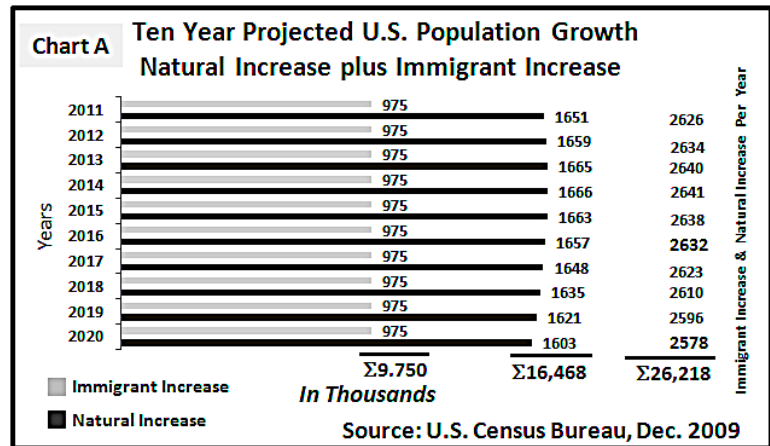
To fully appreciate the scope of the challenge, one has to understand the underlining dynamics. The two drivers of population growth are A) more births than deaths or "natural increase" and B) more immigration than emigration (more people entering than leaving the country). Essential to assessing the situation is good data. Some demographic information is readily available with the number of births being statistically tallied by different state and federal agencies. A similar situation exists for legal immigration with the Census Bureau and Homeland Security keeping tabs. However, getting nationally aggregated data on health care costs related to both is something else. Few states collect specific information on both public and private birthing costs.

As to national immigrant healthcare costs, there is no place to find nationally amassed information. Certainly there are small-scale studies and opinions on the cost-benefits of both legal and illegal immigration, but little information that gives us a macro view of immigrant healthcare usage and who pays for it. Nor is there a federal agency charged with assembling and reporting data scattered about the 50 states. Monitoring the cost-benefits is critically important to developing and maintaining sound immigration policy, and for now needed data is lacking.

In the absence of official information, an indirect approach was used in our study. It was decided to use a *proxy* for real healthcare costs. The Center for Medicare and Medicaid Services reports that the U.S. spent \$2.6 trillion or \$8402 per person for both public and private sector healthcare in 2010. Since these are official metrics, it was decided to use the reported per capita expenditure of \$8402 as the study's *cost proxy*. The next step was then to use it in calculating healthcare expenditures as related to population growth.

As mentioned previously the principal drivers of population growth are; A) *natural increase* (births minus deaths) and B) *legal immigration*.<sup>1</sup> Using a 40 year projection made by the U.S. Census Bureau in 2009, official growth estimates for these two variables were abstracted and put in a short-term ten-year chart (2011 to 2020) shown below.

Starting with 2011, a natural increase results from births (4,256,000) exceeding deaths (2,606,000) by 1,651,000. Births continue to rise in subsequent years, yet deaths slightly outpace them, resulting in modest decline in the *natural increase* over the period. *Legal immigration* on the other hand is forecasted by the U.S. Census Bureau to remain flat at 975,000 persons annually. This is a very conservative figure, especially since in the prior decade the annual average was 1,050,105 immigrants.



Nonetheless, using the official data presented, approximately 62% of the nation's population growth on average will be from natural increase with the rest coming from Greencard holders or Legal Permanent Residents (LPRs).

It should be noted that the distinction between *natural increase* versus *immigrant increase* gives the impression that the two are mutually exclusive. For obvious reasons, that's not the case. Today's immigrant woman most often becomes tomorrow's birth mother. In fact one of the concerns has been that migrants from other cultures tend to have larger families, bringing their values to bear in America. However, this may be changing. For example Mexican women, who account for the highest percentage of Hispanic births in the U.S., are now tending to have fewer children. No one knows whether this is a short term anomaly due to difficult economic times or the beginning of a longer term trend.

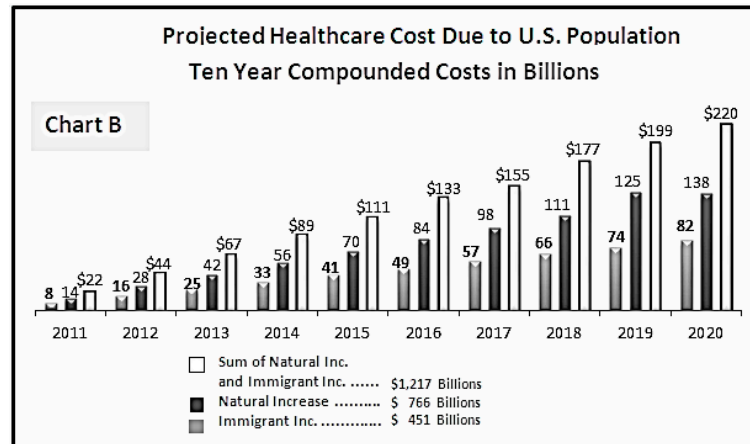
Based on this combination of immigration and natural increase, Chart A indicates that the nation can expect 26,218,000 more people by the end of 2021. That's twice the current population of New York City and Los Angeles combined. Needless to say there's another wave of healthcare costs coming, not to mention an additional burden on an already overstressed national infrastructure.

It's worth noting that demographers believe projections made by the U.S. Census Bureau generally lean towards the conservative side, especially in this case where illegal migrants or the "undocumented" are not factored in. Also, decadal censuses tend to be undercounted, making any forecasts based on them similarly under stated. Nevertheless, our study felt it prudent to stay with the official figures.

## Calculating Healthcare Expenditures

It is quite simple to arrive at the healthcare expenditures related to these two population drivers. The annual natural increase is multiplied by the *proxy cost*. That is, the 1,651,000 net births in 2011 (see Chart A) are multiplied by \$8402 to arrive at \$13,871,702,000 in costs, which was rounded up to \$14 billion. This was similarly done for immigrants with an expenditure of \$8,191,950,000 rounded off to \$8 billion as shown on Chart B below for the year 2011 and for the subsequent nine years.

Before getting too far into the cost overview, it's important to recognize some of the limitations of using the cost proxy. The per capita cost of \$8402 for newborns probably underestimates the costs of births. Uncomplicated vaginal and caesarian deliveries range in retail price from \$9600 to \$16,000 with complicated deliveries reaching into the tens of thousands of dollars; depending on surgical interventions and neonatal intensive care stays. On the other hand there is likely to be less medical expense per child in later developmental years, which will offset the initially high start-up healthcare costs of having a baby. The presumption is that the two extremes in the ten year span will tend to balance each other out.



As to legal immigrants, it is expected that as they assimilate, general healthcare usage will take on patterns similar to those of native households. Regardless of their legal status, race, ethnicity, or geographical origin, people migrating to America carry with them active and chronic diseases, disabilities, and of course, run the risk of injury in their daily activity, just as natives would. In short, they should not be expected to go without clinic, doctor, emergency room, and hospital care.

Some studies suggest, however, that foreign born residents whether legal or not, have a lower private doctor and health care facility use rate and this holds true for public health care services as well. In the absence of workable data, the proxy cost of \$8402 seems to be an acceptable approximation with the caveat that this cohort tends to be younger and thereby may be healthier than the average aged native. It's also reasonable to assume that in the early years of immigrant residency, the proxy cost may be overstated, but as the years progress immigrant health care costs most likely will bend to American cultural patterns.

Recognizing that proxy cost methodology has those built-in limitations, it was decided that our study approach was still valid and workable in the absence of better data. Expenditures were calculated and Chart B above arrays the results. It shows a disturbing picture of health care costs attributable to population growth.

When summing each year's expenses, the U.S. will generate \$1.217 trillion in health care costs due to population growth by the end of 2020. Most of the forecasted costs will be paid by employers and health insurance plans, but unfortunately not all of it. The taxpayer will take a big hit for those who can't pay.

Before getting into the details, there are some modeling assumptions to identify. When the Centers for Medicare and Medicaid Services (CMS) calculated its annual per person healthcare cost of \$8402, the impact of prior years of population growth was baked in. Thus, starting our study's

extrapolation with 2011 and going out nine more years provides a fresh opportunity to picture the full effect of new growth.

It should also be recognized that the study did not include the reality of future inflation. This is fortuitous, as it allows us to demonstrate what can happen when an imaginary freeze is put on healthcare prices. If that were the case, one might assume the national bill would remain flat at \$2.6 trillion per year, as reported by CMS for 2010, or \$26 trillion for the ten-year period. But that's actually not the case.

### **The Phenomenon of Compounding Costs**

As healthcare costs for births and immigrants are incurred, they compound annually. This phenomenon is critically important to grasp. Looking at Chart B we see \$22 billion is added to the nation's healthcare bill due population growth in the first year alone with a steep climb in expenditures in each trailing year. By 2013 those annual costs have more than tripled to \$67 billion. Why? It is because the costs from prior years are rolled forward and added to the current year's expenditures, resulting in a compounded effect that dramatically accelerates over the ten-year period.

Putting it another way, the babies born in one year will become children in the next, incurring medical expenses as a new group of babies take their place. The same holds true for immigrants. It is assumed that they will stay in the country, with some getting sick and injured while another assemblage of newcomers arrive from different corners of the world. Our study's take away is that the first year's costs can't simply be multiplied by 10 to get a decadal sum; the aggregated and accumulated costs for each of the ten years must be totaled. Such incurred compounding is a reality that is inherent in exponential population growth.

When combining the established population base with the newcomers, the ten-year projected national health care costs are \$27.2 trillion (remember no inflation included) of which \$1.217 trillion (3.67%) is attributed to population growth. Going out twenty years this percentage will nearly double due again to the effect of compounding. What initially seemed to be relatively minor factor relative to the huge cost base slowly evolves over decades into a formidable cost generator of its own.

### **MORE PEOPLE...MORE HEALTHCARE COSTS...AND MORE TAXES**

This may help shed some light on the seemingly intractable problem of why healthcare spending each year continues to voraciously consume an ever-bigger slice of the nation's economic pie.<sup>ii</sup> As shown, if the United States continues to support an overly generous immigration policy and state legislatures insidiously chip away at a woman's right to reproductive choice, the sky is the limit on population growth with the nation's healthcare tab skyrocketing as a result.

### **The Role of Healthcare Payors**

One of the long standing pillars of the healthcare industry has been private sector health insurance. According to the U.S. Census Bureau more than 60 percent of Americans are insured, with a majority benefiting from an employer sponsored plan.<sup>iii iv</sup> But are immigrants and new mothers similarly insured? And if not, who is paying the bills?

Our study looked at both groups. Beginning with immigrants, the Pew Hispanic Center's research indicates that of all foreign born U.S. residents, 34.3% are *not* insured.<sup>v</sup> This means that of the projected \$451 billion in healthcare expenditures generated by immigrants between 2011 and 2020 (see Chart B) \$155 billion would likely be paid out of pocket or by state Medicaid programs. Many of these dollars may also show up as uncompensated care on the books of clinics, hospitals, and doctor offices. No matter how they are accounted for, most of these healthcare dollars will have to be paid by both federal and state taxpayers with a portion being subsidized by insurance companies as a result of behind-the-scenes cost-shifting.

The Affordable Care Act requires all residents to have health insurance by 2014, including legal immigrants. Should the latter not be able to pay, no federal subsidy is available during the immigrant's first five years in America. However, the states have the leeway to provide Medicaid subsidies for them during the waiting period, so immigrants may or may not be helped in meeting the mandate. In our study because of this uncertainty, projections were based on Pew's uninsured figures with the taxpayers footing the bill.

When we turn to natural increase, the situation is quite straight forward. "Medicaid plays a key role in child and maternal health, financing 40% of all births in the United States. Medicaid coverage for pregnant women includes prenatal care through the pregnancy, labor, and delivery, and for 60 days postpartum as well as other pregnancy-related care." <sup>vi</sup> Based on this statement, 60 percent of births are financed by the private sector through health insurance plans and out of pocket payment, leaving 40% up to the American taxpayer. This means that in all probability the \$766 billion in healthcare expenditures for *natural increase* between 2011 and 2020 (see Chart B); the taxpayers will be funding \$306 billion.

When combining birthing and healthcare expenditures for immigrants and newborns, public programs (taxpayers) are projected to pay \$461 billion for this ten-year period. If our study were to be extended out another 10 years, both the federal and state governments would have to come up with well over another trillion dollars to fund healthcare for the poor. Since the federal government borrows about 46 cents on the dollar, this means foreign nations would be lending us money to pay for population growth. Who would have thought that China, which is trying to contain its population size, would someday be lending money to America to increase theirs?

Keep in mind that healthcare inflation will make this picture much worse, as the industry's rate is usually at least twice the domestic inflation rate. Obviously, we Americans need to take a fresh look at how big a nation we want and at what price to our treasury and pocket books.

In that vein, let's see what happens if we downsize immigration policies and strengthen the nation's family planning programs.

### **The Socio-Economics of Better Managing Population Growth**

Our ten-year study has set the stage for a proposed "Plan B Option." Suppose the number of Greencards issued annually was reduced from 975,000 to 250,000 and *natural increase* was reduced to a net 585,000 births yearly; what would be the impact on healthcare expenditures for the next ten years? The **Summary Table** on the next page shows that the nation's healthcare bill would decrease by \$831 Billion with the taxpayers saving \$313 billion. Let's look closer at how those astonishing savings could be achieved.

Starting with *natural increase*, imagine an ambitious nationwide family planning campaign with a goal of decreasing fertility rates. According to the Guttmacher Institute about half (49%) of U.S. births are *unintended* with the rate "-increasingly concentrated among low income and poor women." <sup>vii</sup> Assuming these women don't have the financial means to pay for birth control, they are at the whimsy of mother-nature. By reducing unintended pregnancies, many women and their babies would get a better start in life by being planned.

With a nationwide campaign fully supported and funded by government and private sector programs, the goal would be to shrink unintended pregnancies by half or 25% of all births. This means that instead of 4,256,000 births in 2011, there would be 3,192,000, trimming the *natural increase* to roughly 585,000 for that year. <sup>viii</sup> This reduction still leaves a



healthy flow of over 3 million births per year to sustain the core population base.

Using a natural increase of 585,000 as a yearly metric for the next decade, the nation would see its health bill reduced by \$496 Billion (See Summary Table: \$766 billion less \$270 billion), virtually half a trillion dollars. In addition taxpayers would benefit from a savings of \$198 billion (\$306 billion less \$108) in funding for Medicaid and other newborn programs. Governmental investment in family planning enables poor women to control their fertility and make better choices in life, while reducing the tax burden.

Moving on to the proposed annual reduction in legal immigrants, the nation’s health bill would be reduced by an astounding \$335 billion for the decade (see Summary Table: \$451 billion less \$116). In turn American taxpayers would accrue a savings of \$115 billion in healthcare costs (\$155 billion less \$40 billion) for the uninsured immigrant.

The Congressional Budget Office and the Joint Committee on Taxation estimates that the Affordable Care Act “will have a net cost of \$1.1 trillion over the 2012 to 2021 period.”<sup>ix</sup> The new law aspires to “bend the cost curve” of provider services, while improving quality; laudable goals indeed, but vague and unquantifiable, taking years to achieve if ever. It is clear from our study that quicker and more substantial savings can be had by reducing legal immigration and curbing the number of unintended pregnancies. This combination could offset the \$1.1 trillion cost for ACA by \$313 billion in tax savings as the Summary Table displays.

<b>Summary Table of 10 Year Study</b> (In Billions)			
<b>National Healthcare Bill</b>		<b>Taxpayer's Cost</b>	
Natural Increase	\$766	(40.0%)	\$306
Immigration	\$451	(34.3%)	\$155
	<b>Total</b>		<b>\$461</b>
<b>Plan B Option</b>			
Natural Increase	\$270	(40.0%)	\$108
Immigration	\$116	(34.3%)	\$40
	<b>Total</b>		<b>\$148</b>
	<b>Savings</b>		<b>\$313</b>

The picture painted by Plan B is that our lawmakers have a real opportunity to reduce healthcare expenditures in the next ten years by better managing demographics, keeping in mind that *the greater the people numbers, the higher the nation’s healthcare bill with the electorate paying higher taxes for the less fortunate.*

## Summary

The Affordable Care Act seeks to lower the nation’s healthcare expenditures by structuring price competition between insurance companies and delivery system providers---but that will not be enough.

Even if all Americans became exemplary specimens of health and provider prices shrink to acceptable levels, the industry will continue to command a larger portion of the Gross Natural Product due to persistent growth pressures. Our study shows that one of the best ways to take command of the nation’s healthcare bill is to better manage the two major drivers of population increase: reduce the number of immigrants and births. In so doing, Americans would be relieved of several hundred billion in projected taxes, while lightening the human load on a failing national infrastructure and a deteriorating environment.

Over the next decade taxpayers will be paying an estimated \$461 billion to fund healthcare for the country’s poorer newcomers with that figure nearly tripling in the next 20 years. A major portion of these dollars will be put on the nation’s credit card, pumping up an already pernicious national debt, and making America even more financially dependent on foreign nations.

If we seriously want to get control of healthcare costs and decrease the national debt, we need to do two things simultaneously: 1) reduce the retail price of delivering healthcare which ACA aspires to do and 2) reduce population growth, a strategy that so far has been ignored by both the Congress and the Administration.

## The Tough Choices Ahead

Based on the study's findings, here are some obvious choices that will help reduce healthcare costs, decrease the national debt and lead to population stabilization.

1. Set a national goal of reducing family size to two children or less--not by law or by executive edict, but by educating the young, providing tax incentives, and supporting family planning programs especially for the poor. Let people know why smaller families help assure their children's future, as well as that of the nation.
2. Declare a moratorium on immigration, reducing annual Greencards to 250,000. This would narrow admissions to highly skilled workers (unavailable in the U.S.) and their immediate family members, along with a limited number of refugees and asylum seekers. US immigration policy needs to be reformed using the principle that the socio-economic needs of the nation come first, with the personal aspirations of immigrants and special interest groups being secondary.
3. Make America's growth transparent. Establish a national data center to capture all population growth expenditures. Hold the Director accountable for aggregating and bi-annually reporting to the Congress and the American people all expenditures originating at the state and federal levels. This information should assist law makers in making sound policy on healthcare, desired population size, and immigration. Absent good data, the nation is dealing in the dark on these critical issues.

Without a doubt taking such action will be politically controversial and painful, but the time has come to do better by the American people, while helping to assure the wellbeing of future generations.

W.J. Van Ry,

Founder

The Foundation for Human Conservation

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<sup>i</sup> This study excludes non-citizens, i.e. illegal aliens or the undocumented, since the US Census Bureau did not estimate their numbers in the original 40 year projection.

<sup>ii</sup> Henry J. Kaiser Family Foundation, "Health Care Costs. A Primer", May 2012

<sup>iii</sup> U.S. Census Bureau, "Income, Poverty, Health Insurance Coverage in the United States: 2010." [Health Insurance Coverage](#), "Between 2009 and 2010, the percentage of people covered by private health insurance declined from 64.5 percent to 64.0 percent...the percentage covered by employment-based health insurance declined from 56.1 percent to 55.3 percent." September 13, 2011.

<sup>iv</sup> Reuters, "Employee health insurance hits new low: Gallup", "The percentage of Americans who have health insurance through their employer slipped to a new low of 44.5 percent in the third quarter, a drop of over 5 percentage points in three years according to a poll released Friday." November 11, 2011.

<sup>v</sup> Pew Hispanic Center, Table 38, "Persons Without Health Insurance by Age, Nativity and Citizenship: 2010", February 2012.

<sup>vi</sup> [Medicaid.gov/Medicaid-CHIP-Program-Information](#), Pregnant Women, July, 2012

<sup>vii</sup> Guttmacher Institute, PDF In Brief, "Facts on Unintended Pregnancy in the United States" January 2012.

<sup>viii</sup> In 2011, 4,256,000 births are projected by the U.S. Census Bureau. If nearly 50% are unintended (2,128,000) and then the campaign reduces that number in half once again, there will be 1,064,000 fewer births. The natural increase would be reduced to 585,000 (3,192,000 births minus deaths of 2,606,000).

<sup>ix</sup> Congressional Budget Office, March 2012