

Medicare for All:

Much Higher Taxes on Everyone Could Not Cover Bernie Sanders' Plan and Much Higher Taxes on High-Income People and Corporations Could Not Cover a More Modest Program

Robert J. Shapiro

A “Medicare for All” program can be designed and implemented in many ways and therefore at a substantial range of costs. Whatever its design, however, its sponsors have to address the basic math, which tell us that any such program would involve very large numbers of new recipients and consequently very large additional federal spending to be financed in some way.

The Centers for Medicare and Medicaid Services (CMS) project that in 2020, Medicare will cover 62.1 million people, another 196.3 million people will be privately insured, and 31.4 million people will lack any coverage, public or private. So, a Medicare for All program that begins next year would involve adding 227.7 million people to its rolls, an expansion of 367 percent. CMS also estimates that in 2020, private healthcare insurance premiums, which reflect and cover the medical costs of the pool of people who pay those premiums, will cost an average of \$6,832 per-person. Setting aside for now people’s out of pocket costs, a Medicare for All program in 2020 will start with new funding requirements of \$1,555.6 billion in year one. This near doubling of Medicare spending defines a baseline for financing any Medicare for All plan.

Below, we examine the costs and possible ways of funding two versions of Medicare for All: An expansive version based on Senator Bernie Sanders’ proposal, including his readiness to apply new taxes to middle-income Americans to finance it; and a more modest version that relies on Senator Elizabeth Warren’s commitment to fund the program by raising taxes on high-income households and corporations. This analysis finds that given medical costs in the United States and the ambitious reach of Medicare for All, the current tax system would be unable to either finance the Sanders version on virtually any terms or the modest version on Warren’s terms. A 50 percent increase in both all payroll and personal income taxes could cover, at most, only 53 percent to 67 percent of the costs of Sanders’ expansive version of the program. Similarly, a 50 percent increase in federal taxes on both corporations and the top 5 percent of taxpayers would cover just 37 percent of the cost of the more modest version of the program. To pay for a modest version of Medicare for All, we would have to increase the burden of all federal income taxes, payroll taxes and corporate taxes by at least 40 percent.

The Costs and Financing of an Expansive Version of Medicare for All

Senator Sanders’ version of Medicare for All would eliminate all premium contributions, deductibles and co-payments, and expand benefits by providing no-cost coverage for dental care, vision services, prescription drugs and long-term care. Moreover, he insists that people’s savings from eliminating insurance premiums and out of pocket healthcare spending will exceed the new taxes they would pay to finance the program. That commitment, however, would be hard to fulfill, given the projected costs of this expansive version of the program.

Two prominent analyses have estimated the additional 10-year costs of the Sanders proposal, on top of the existing Medicare and Medicaid programs. A study by the Mercatus Center at George

Mason University concluded the plan would increase total costs by \$32 trillion over the 10 years from 2022 to 2031, and [the Urban Institute found](#) that Medicare costs would increase by \$40 trillion over the same period. Sanders has not specified how he would finance this unprecedented increase government spending, but the current income and payroll tax systems clearly could not accommodate it.

According to the [latest estimates issued by the Congressional Budget Office \(CBO\)](#), the government will collect a total of \$15,420 billion in payroll taxes from both employees and employers over the 10 years from 2020 to 2029, with those revenues growing at an average rate of 3.9 percent per-year. Using those data, we estimate that from 2022 to 2031, the government will collect a total of \$16,679 billion in payroll taxes under current law. Increasing those revenues by 50 percent would produce an additional \$8,340 billion over this period, sufficient to cover less than 21 percent of the \$40,000 billion cost of Medicare for All according to the Urban Institute and barely 26 percent of the \$32,000 billion cost estimated by the Mercatus Center.

CBO further estimates that the government will collect \$23,227 billion from all personal income taxes over the decade from 2020 to 2029, with those revenues growing an average of 5.7 percent per-year. Using those data, we estimate that from 2022 to 2031, the government will collect a total of \$25,973 billion in personal income taxes. Raising income tax revenues by 50 percent, therefore, would generate an additional \$12,987 billion over this period, which would cover 32.5 percent (Urban Institute) or 40.6 percent (Mercatus Center) of the Sanders' plan's cost.

It is clear that financing an expansive form of Medicare for All would require a new tax system. Increasing both payroll taxes and personal income taxes by 50 percent would raise \$21,327 billion in additional revenues over the decade from 2022 to 2031, sufficient to cover just 53.3 percent (Urban Institute) or 66.6 percent (Mercatus Center) of the program's costs. Moreover, those revenues estimates are highly optimistic – probably unrealistically so – because they do not take account of the negative impact of much higher payroll taxes on employment and wages, and through them on payroll tax revenues, nor the negative impact of much higher income taxes on people's incentives to earn more taxable income and find ways to reduce those taxes.

The Costs and Financing of a More Modest Version of Medicare for All

Senator Warren also supports "Medicare for All," including the elimination of private health insurance and reductions in people's out of pocket costs. However, she has not endorsed the Sanders plan, nor has she yet explained how her approach would differ. She also has said that higher-income taxpayers and corporations would bear the costs of her plan, which implies a more modest version of Medicare for All.

Here, we will evaluate the costs and funding possibilities for a very modest version of Medicare for All. Under this version, the federal government would assume the costs of current private health insurance and out-of-pocket expenses, which together cover the medical costs of those currently covered by private insurance. We do not assume that this new program would include any healthcare services beyond those now covered by private insurers, as does the Sanders plan. However, our analysis does assume that the plan would substantially reduce people's out of pocket spending, a persistent target of Warren's criticism. Based on the available data, we focus here on the plan's potential costs and possible funding in one year, 2020. The analysis shows that increasing income taxes on higher-income households and corporations by 50 percent would cover less than half of the net funding requirements of a modest Medicare for All program.

To estimate costs and those funding requirements, we draw on the [data on private insurance and out-of-pocket spending reported by the Centers for Medicare and Medicaid Services \(CMS\)](#).

CMS projects that private healthcare insurance will cost 1,344.1 billion in 2020 and cover 196.3 million people. CMS also estimates that in 2020, the average cost of health insurance per enrollee will be \$6,832, and 31.4 million people will remain uninsured. Based on these data, covering those uninsured would cost an additional \$214.5 billion in 2020 (31.4 million * \$6,832), bringing the total cost of insured medical care for everyone not covered by public insurance to \$1,558.6 billion in 2020.

As Warren has emphasized some of those costs reflects the profits earned by the insurers. The National Association of Insurance Commissioners (NAICS) reports that the nation's 1,010 healthcare insurers [had net earnings of \\$24.3 billion](#) in 2017, and the Bureau of Economic Analysis reports that [the profits of insurers and other financial institutions increased 3.8 percent](#) in 2018. Using these data, we estimate that the industry will earn \$27.7 billion in profits in 2020, which lowers the estimate of insurance-related healthcare spending to be covered under a modest Medicare for All to \$1,530.9 billion

This version of Medicare for All presumably would also cover a substantial part of people's current out of pocket healthcare spending. CMS projects that all such out of pocket spending will total \$415.5 billion in 2020. However, this includes the out of pocket spending by people on Medicare, Medicaid and other government-paid healthcare, which currently account for nearly half of all healthcare costs. We further assume here that a modest version of Medicare for All would reduce but not eliminate all private out of pocket spending. Therefore, we attribute one-quarter of CMS's estimate for out of pocket spending to the government's costs under the modest version of Medicare for All, or \$103.9 billion. This brings the program's costs in 2020 to an estimated \$1,634.8 billion,

Finally, Medicare for All also would produce significant savings for the government in two ways. First, the subsidies and other expenditures associated with Obamacare would end, [saving an estimated \\$59 billion in 2020](#). In addition, the new program would eliminate the tax exclusion for the value of employer-provided health coverage, [saving the government an estimated \\$301 billion in 2020](#).

All told, therefore, a modest version of Medicare for All would increase federal spending, on a net basis, by \$1,274.8 billion in 2020. Senator Warren has suggested that high-income people and corporations should bear any such additional costs. However, analysis of tax data show that this approach could not begin to cover the program's projected costs, whether we define "high income" as the top 0.1 percent, the top 1.0 percent or the top 5.0 percent of Americans.

The most recent detailed income tax data from the Internal Revenue Service cover 2016. [Those data show](#) that the top 0.1 percent of taxpayers, with adjusted gross incomes (AGI) of \$2,124,117 or more, paid 18.12 percent of all income taxes in 2016 or \$261.4 billion. Over the preceding four years (2012-2016), their total income tax after credits increased 18.6 percent. The IRS data also show that the threshold for the top 0.1 percent of taxpayers increased 14.1 percent from 2013 to 2016. Based on these data, the top 0.1 percent in 2020 will cover those with taxable incomes after credits of \$2,495,837 or more, and they will pay an estimated \$310.0 billion in income taxes in 2020. Increasing their income tax burden by 50 percent, therefore, would raise an additional \$155.0 billion in 2020, equivalent to 12.2 percent of the additional net cost of the modest Medicare for All program.

The results are similar for the top 1 percent and the top 5 percent of taxpayers. The top 1.0 percent with AGI of \$609,298 or more in 2020 will pay an estimated \$623.0 billion in personal income taxes that year, so increasing their tax burden 50 percent would generate an additional \$311.5 billion. That would cover 24.4 percent of the additional spending for the modest Medicare for All in 2020. Similarly, the top 5.0 percent of American taxpayers with AGI of \$250,473 or more in 2020 will pay an estimated \$977.9 billion in personal income taxes in 2020. Again, increasing their income tax burden by 50 percent would generate, at most, an additional \$489.0 billion, sufficient to cover 38.4 percent of the additional net cost the modest version of Medicare for All. Finally, [CBO estimates that corporation will pay income taxes](#) totaling \$245 billion in 2020, so that a 50 percent increase in the corporate income tax burden would raise, at most, an additional \$122.5 billion in 2020. That would cover 9.6 percent of the new program's estimated net cost in that year.

All told, therefore, raising taxes 50 percent on corporations and on all households earning more than \$250,000 should generate an additional \$611.5 billion in 2020. That would cover less than half -- 47.9 percent -- of the costs of the modest Medicare for All in that year.

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Our current tax system could not finance an expansive version of Medicare for All on virtually any terms. Similarly, the most modest version of the program in which people receive the same coverage they already have under private insurance could not be financed by higher taxes on corporations and higher-income Americans. In theory, sharp increases in all major federal taxes for everyone could cover the modest Medicare for All. [CBO estimates](#) that in 2020, personal income taxes will generate \$1,800 billion, payroll taxes will bring in \$1,332 billion, and corporate taxes will raise \$245 billion. According to the math, 40 percent increases in all federal income, payroll and corporate taxes could raise \$1,350.8 billion and thereby cover the \$1,274.8 billion cost of the program. Few Americans will likely support such huge tax increases to pay for a new federal program to give them the same healthcare services they already receive.

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Robert J. Shapiro is the chairman of Sonecon, an economic and security-related advisory firm. Dr. Shapiro has advised Presidents Bill Clinton and Barack Obama, numerous senators, representatives and governors, members of the cabinet and other senior officials in the Clinton, Bush and Obama administrations, senior executives at Fortune 100 companies, and prominent nonprofit organizations. He is also a Senior Fellow of the McDonough School of Business at Georgetown University, a board member of the Medici Venture Fund, a member of the advisory boards of Gilead Sciences, Cote Capital, and Civil Rights Defenders, and advisor to Future Majority. Before founding Sonecon, Dr. Shapiro was Under Secretary of Commerce for Economic Affairs (1997–2001) and, before that, co-founder and Vice President of the Progressive Policy Institute and Legislative Director and Economic Counsel for Senator Daniel P. Moynihan. He holds a Ph.D. from Harvard University, a M.Sc. from the London School of Economics, and a A.B. from the University of Chicago. Dr. Shapiro also was the principal economic advisor to Bill Clinton in his 1991-1992 presidential campaign and an advisor on economic policy to the campaigns of Hillary Clinton, Barack Obama, John Kerry and Albert Gore, Jr.