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Assemblyman Richard Gottfried declared the RAND report a “triumph” and said he would raise the taxes on high-income earners to protect low-income earners. | AP Photos

RAND study finds single-payer viable in New York, but with big caveats

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ALBANY — A bill that would establish a single-payer health system in New York is financially feasible and could curtail spending in future years, if assumptions that range from the questionable to the improbable take place, according to a long-awaited study unveiled Wednesday.

The New York Health Act would provide universal insurance coverage with no copays, deductibles or premiums for all New Yorkers, regardless of immigration status, and would lead to higher utilization while lowering health plan and provider administrative costs — saving the system $15 billion, or about 3.1 percent, by 2031, compared to current policies, according to the report.

The paper, which the RAND Corp. compiled upon a commission from the New York State Health Foundation, is a boon for single-payer advocates because it shows most individuals and employers would save money over the long term. But the findings come with several caveats that could bog down any effort to pass and implement single-payer in New York, particularly if Republicans continue to wield power in Albany and Washington.

First, the Trump administration would have to grant a precedent-shattering federal waiver to redirect all federal, state and Obamacare funds used for Medicaid, Medicare and marketplace tax credits to the New York Health Act. Last week, Centers for Medicare & Medicaid Services Administrator Seema Verma called California's pursuit of single-payer health care "unworkable" and indicated similar waivers would not be approved.

Beyond redirecting the existing revenue streams, the New York Health Act calls for $139 billion in new state tax revenue by 2022 — 156 percent more than what the state currently collects — through income and payroll taxes on both employers and individuals. That would supplant premiums, employer contributions and out-of-pocket costs.

Because the legislation does not specify tax rates, other than to state they are to be progressive, RAND's report uses one possible tax schedule that would meet the program's financing needs: households reporting $27,500 or less in 2022 would be taxed 6.1 percent of their payroll and 6.2 percent of non-payroll income, such as capital gains, dividends or pensions; households reporting between $27,501 and $141,200 would be taxed 12.2 percent of their payroll and 12.4 percent of non-payroll income; and households reporting $141,200 or more would be taxed 18.3 percent of their payroll and 18.6 percent of non-payroll income.

That means a household reporting $150,000 in income would see its state tax rate increase from 6.45 percent in 2017 to 18.3 percent.

Under this tax schedule, many low-income people who currently receive Medicaid would pay more because their taxes would increase without the concurrent benefit of lower health care costs.

The roughly 700,000 people currently on the Essential Plan, which provides low- or no-cost health insurance to those who earn less than twice the federal poverty line, would also pay more under this tax schedule. Reducing their burden would necessitate higher rates on wealthier groups, or conceptual changes.

Assemblyman Richard Gottfried (D-Manhattan), sponsor of the bill NY A4738 (17R), declared the RAND report a “triumph” and said he would raise the taxes on high-income earners to protect low-income earners.

“RAND shows we can make sure every New Yorker gets the care they need and does not suffer financially to get it; save billions of dollars a year by cutting administrative costs, insurance company profit, and outrageous drug prices; and pay for it all more fairly,” Gottfried stated in a release.

Gottfried said he thought RAND may have been conservative in its projections and added that he plans to add coverage for long-term care to his legislation, now that it has a price tag of roughly

$20 billion. Long-term care is not in Rand's baseline projections because it is not in the original legislation.

Asked if this is too radical an undertaking to achieve 3.1 percent in savings by 2031 and cover about a million more people, Gottfried said universal coverage doesn't just help people with no insurance. "In New York, there are people who are severely underinsured, people with deductibles they can't afford and restrictive provider networks," he said.

The RAND report also assumes that all New Yorkers would enroll in the new plan, meaning companies with New York-based workers would be required to drop their employer-provided health insurance and instead pay 80 percent of the payroll tax, with employees picking up the other 20 percent. Companies that offer health insurance will save between $200 and $800 per worker, on average, in 2022, according to the report. Companies with fewer than 50 employees, who are exempt from Obamacare's employer mandate, would also be required to pay 80 percent of the payroll tax. That's equal to $1,200 to $1,800 more per employee, according to RAND, a major burden to small employers that could force them to close up shop or move across state lines.

Likewise, "there is little doubt that employers or at least some employer group would challenge this law [arguing it is] preempted by ERISA," said Andrew Liazos, partner at law firm McDermott, Will & Emery, referring to a federal statute that governs employee benefits, including health insurance.

Courts have ruled that ERISA supersedes state law.

The state is "basically providing for the coverage by having this very significant tax," Liazos said. "It's forcing them to change their plan and basically go to a different type of plan" — which a court could rule is a form of coercion.

A single-payer system would also add a layer of complexity for multinational or multi-state corporations that provide benefits to their employees, which ERISA standardized when enacted in 1974. It also creates confusion for companies with employees who relocate, work in different states or are hired on a contract basis, Liazos said.

Furthermore, wealthy New Yorkers could simply move and large corporations could restructure, effectively collapsing the funding model. The progressive design of the new taxes would likely provide a strong incentive for at least some to attempt such strategies.

"If only a small percentage of the highest-income residents found ways to avoid taxes, the schedule would need to be reworked, potentially increasing the burden on middle- and lower-income

residents," a research brief accompanying the study stated.

RAND researchers noted their model is still "highly uncertain and [depends] on providers' bargaining power, the state's ability to administer the plan efficiently, and the federal government's willingness to grant waivers to the state."

The model, for example, assumes that the cost of hospital services grows at a 2.6 percent rate and physician services grows at a 0.4 percent rate. That's in line with what public providers are currently paid but most of the state's health care services are private and their costs typically grow at a faster rate. Hospital costs typically grow at a 3.4 percent rate and private physician costs grow at a 1.2 percent rate.

If those trends continue, a single-payer system would cost an additional 2.6 percent by 2031.

"A key assumption behind this result is continued restraint in the growth of provider payment rates," the report said.

Squeezing provider payment growth could prompt hospitals — one of the most powerful lobbying interests in Albany — to team up with the commercial health insurance industry, which stands to be abolished altogether, in an all-out war against this plan.

If all of the assumptions pan out, however, New Yorkers who earn less $105,000 would see, on average, $2,800 in savings per person, according to the report. The plan would also have far larger scale than any commercial health insurer in New York, which the study notes would help in negotiations with pharmaceutical manufacturers without too much risk to patients' broad access to prescription drugs.

The New York Health Act already has become an issue in this year's gubernatorial contest. Cynthia Nixon endorsed it last week as part of her primary challenge to Gov. Andrew Cuomo — she trails by about 30 percentage points in polls — and Republican challenger Marc Molinaro said he would veto a single-payer bill.

The policy will also become an issue in a number of state Senate contests. Democratic candidates have been campaigning on the legislation in GOP-held districts and in primary challenges to members of the defunct Independent Democratic Conference. Every senator associated with the IDC is a co-sponsor of the bill, but liberal activists believe the group's power-sharing arrangement with Senate Republicans helped block the legislation for years.

State Sen. Simcha Felder (D-Brooklyn), who caucuses with Republicans, is the sole Democrat who is not a co-sponsor of the legislation.

Read the full report here.