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Monthly condensed analyses of crucial real estate and economic issues offered by the UCLA Anderson Forecast and UCLA Ziman Center for Real Estate. Here, Linda Diem Tran, Frederick J. Zimmerman and Jonathan E. Fielding recommend improving health by reallocating California expenditures from medical spending to social programs.

Unhealthy Priorities: Reallocating Medical Expenditures to Social Programs Can Improve Public Health and the Economy

By Linda Diem Tran, Frederick J. Zimmerman, and Jonathan E. Fielding

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As much as 30% of U.S. healthcare spending in the United States does not improve individual or population health. To a large extent this excess spending results from prices that are too high and from administrative waste. In the public sector, and particularly at the state level, where budget constraints are severe and reluctance to raise taxes high, this spending crowds out social, educational, and public-health investments. Over time, as spending on medical care increases, spending on improvements to the social determinants of health are starved.

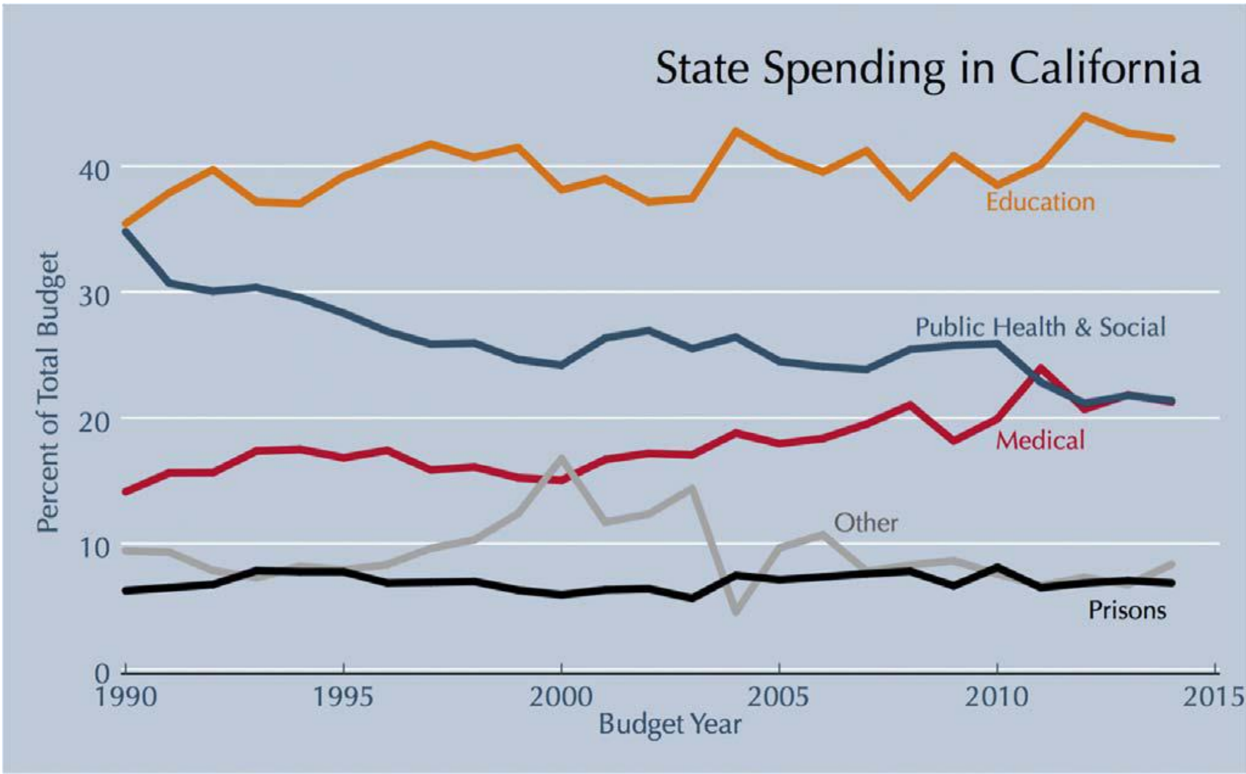
> *"Up to 10,500 premature deaths could be prevented annually by reallocating portions of medical spending to public health. The same expenditure could help an additional 418,000 high school students to graduate.''*

In California the fraction of General Fund expenditures spent on public health and social programs fell from 34.8% in fiscal year 1990 to 21.4% in fiscal year 2014, while healthcare spending increased from 14.1% to 21.3%. In spending more on healthcare and less on other efforts to improve health and health determinants, the State is missing important opportunities for health-promoting interventions with a strong financial return. Reallocating ineffective medical expenditures to proven and cost-effective public health and social programs would not be easy, but recognizing its potential for improving the public's health while saving taxpayers billions of dollars might provide political cover to those willing to engage in genuine reform. National estimates of the percent of medical spending that does not improve health suggest that approximately $5 billion of California's public budget for medical spending has no positive effect on health. Up to 10,500 premature deaths could be prevented annually by reallocating this portion of medical spending to public health. Alternatively, the same expenditure could help an additional 418,000 high school students to graduate.

This analysis uses 25 years of fiscal data from the State of California to assess the crowding-out of non-medical social spending by rapidly increasing healthcare costs. California was chosen because State Proposition 13 and several state laws make raising taxes difficult, thereby creating a firm budget cap.

Public spending in California was relatively flat during this period. From 1990 to 2014, real per-capita spending rose modestly from $2340 to $2880, which represented a large decrease from 9.1% of state GDP to just 4.8%. Spending on K-12 education was well protected, increasing its share of the budget from 37.5% to 42.2%, and hovering very close to 40% for all but the first two and last two years.

Fig. 1. Non-federal California State spending by category over time. Categories are mutually exclusive and collectively exhaustive.



But the proportion of the State budget spent on healthcare increased by 50% from 14.1% to 21.3% over the study period. The largest part of this spending was for Medicaid and other medical benefit payments, 77% of the total in FY2014. Other significant components were for prison healthcare (9.7%), state hospitals (6.6%) and retiree dental benefits (6.4%).

State investments in education and social programs have not kept pace with increases in healthcare spending during this period. This crowding-out social spending limits opportunities to invest in programs that produce high-value and cost-effective outcomes for California.

Applying the low estimate to the proposed $24.9 billion in the California FY2015 budget suggests a potential investible savings of $5.23 billion in fiscal year 2016. This amount represents the opportunity cost of misplaced medical spending, which could be reallocated to improve California's infrastructure, strengthen its workforce, alleviate poverty, and improve population health at no net additional cost.

Our paper estimates the health, social welfare, and economic benefits of allocating this $5.23 billion to fund one of three social initiatives in California: 1) funding state tobacco control activities for 13 years; 2) restoring and expanding the number of high school counselors in California's public educational system for 10 years; or 3) increasing the number of state Preschool slots for 10 years. One of these three proposals could be funded for 10 or 13 years from just one year of reallocated medical spending.

TOBACCO PREVENTION AND CONTROL

Exposure to tobacco smoke is responsible for at least 40,000 annual premature deaths and over $13 billion in annual medical care costs in California. By reallocating just one year's worth of $5.23 billion in annual excess healthcare spending to the state tobacco control program, California can fund prevention and control activities at the CDC-recommended level ($9.15/per capita) for 13 years.

It was estimated that a 2.42 percentage-point reduction in smoking prevalence would avert 10,500 annual deaths in that year. Reductions in smoking prevalence and intensity would also save Californians $11 billion in healthcare costs over 13 years, including $2.5 billion paid for out of public funds.

It was estimated that 10,500 averted deaths would be valued at $53.7 billion. Overall, funding state tobacco prevention and control at the CDC recommended level for 13 years is estimated to generate a return to society (healthcare savings plus statistical value of deaths averted) of $64.9 billion; the expected social benefit-to-cost ratio is 12:1.

HIGH SCHOOL COUNSELORS

California ranks 31st in the nation in high school graduation rate with only 84.5% of incoming 9th graders graduating with a degree within four years in the latest data (United Health Foundation, 2014). High school completion increases lifetime earnings and improves long-term health. Increasing the number of high school graduates also generates substantial economic benefits to the state government and society. Lifetime economic benefits per additional high school graduate—which include increased productivity, and averted crime, healthcare, and welfare costs—have been estimated to range between $347,000 to $718,000.

One year of excess healthcare expenditures ($5.23 billion) can fund 8,443 additional guidance counselors for ten years. This would reduce the student-to-counselor ratio to 156:1 and facilitate frequent contact between students and counselors. We estimated an additional cumulative 418,000 students would graduate by the end of the ten-year funding period. The projected graduation rate in California would increase from 84.1% to 93.7% by FY2023.

An increase in high school graduation of this magnitude would result in 208 deaths averted at the end of the funding period. The total return to society (societal benefits plus statistical value of deaths averted) is projected to be $153-$313 billion. The value of deaths averted contributes $2.7 billion to this total. The expected social benefit-to-cost ratio of this program is between 29 and 60 to 1.

PRESCHOOL

Early childhood education (ECE) is an effective intervention for improving long-term health, educational achievement, and social outcomes. Low-income three- and four-year-old children who participated in center-based ECE programs, on average, had improved test scores, greater high school graduation rates, and lower rates of grade retention, special-education assignment, teen births, and contact with the juvenile and adult criminal justice systems.

The California State Preschool Program (CSPP) provides center-based ECE to three- and four-year old children and is the largest state-funded preschool program in the nation. However, it can only serve 26.5% of all income-eligible three- and four-year-old children in the state, and remains 20% below levels of 2007. Because of budget cuts, a statewide waiting list for subsidized child care is no longer maintained. Before it was eliminated there were 50,000–70,000 children aged 3 or 4 on the list.

By reallocating one year's worth of excess healthcare expenditures to CSPP, California can fund 55,032 additional full-day slots for ten years. Providing quality ECE to an additional 55,032 children, who represent 9.3% of income-eligible three- and four-year olds in the State, would increase the number of high school graduates by 2,036 per year by FY2036, and the proportion of young adults with less than a high school education would fall 28.7%: from 12.9% to 9.2%. We estimated that increases in high school graduation would contribute to 372 averted deaths by 2056, 40 years after implementing the program. The program is projected to generate $20.5 billion in lifetime economic benefits from higher labor-market earnings, lower crime, and reduced costs in healthcare, grade retention, and special education, roughly $6.6 billion of which would benefit taxpayers. The total return to society is estimated to be $25.3 billion; the expected benefit-to-cost ratio.

That these three initiatives – preschool, high school guidance counselors, and tobacco prevention and control – are evidence-based interventions that have been shown to generate health, social, and economic benefits to participants and society.

Reducing waste and unnecessary cost increases in the U.S. healthcare system is politically difficult. Yet precisely for this reason it is essential to be clear-eyed about the costs of doing nothing. Making progress politically will require an energized coalition of those who could benefit from change and all who care about good governance. Creating this energy requires careful articulation of the true opportunity costs of unnecessary medical spending.

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