

From the Bookshelves: "The Great Risk Shift"

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JACKIE JUDD: Jacob Hacker, thank you so much for joining us today. You write in the book about the growing economic insecurity of American families and how it's crept straight through the middle class. Describe what you've found.

JACOB HACKER: The story that I tell is really about how, in almost every facet of the middle-class families' economic lives - their jobs, their pensions, their health care, the security of their family finances - that more and more economic risk has been shifted from the broad shoulders of government and corporations onto the fragile balance sheets of American families.

A generation ago, most employers provided defined benefit, guaranteed pension. They gave you a fixed benefit for the remainder of your life after you retired. Now, of course, most employers that provide a pension give a defined contribution, a 401(k)-style investment account that doesn't offer that type of insurance protection in old age. We've seen the same kinds of shifts with health insurance. Fewer employers are providing coverage. They are putting more cost onto workers, they are requiring - in some cases, the employers take out high-deductible, catastrophic stout plans and set up health savings accounts. We have also seen just a dramatic increase in the rates of bankruptcy, home foreclosure -

JACKIE JUDD: Personal bankruptcy.

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JACOB HACKER: Personal bankruptcy and home foreclosure. So across the board, we've seen that Americans, despite the prosperity of our economy, are facing much more economic risk in their daily economic lives.

JACKIE JUDD: You tell a lot of anecdotes. You share a lot of anecdotes in the book. Is there one anecdote that you think is representative of what you've just described?

JACOB HACKER: Yeah, I mean, I think the story that really captures the theme of the book is the story of the Dorsett family.

Sharon and Arnold Dorsett are really kind of the quintessential middle-class family. Arnold Dorsett is an air conditioner repairman. He earns \$70,000 a year. Part of the reason he earns \$70,000 a year, it turns out, is he is working 90-hour weeks and the reason he is working 90-hour weeks and the reason that Sharon - who is training to be a nurse, but has taken off time to stay home with the children - isn't finishing her degree, is that their son, Zachary, one of their three children, has a rare immune system disorder. And even though they have insurance, within a matter of months they run up \$30,000 in credit card bills paying for their health care. And they can't make their car payment. They can't make their mortgage payments and eventually, in 2005, they succumb to the inevitable and they file for bankruptcy.

In 2005, two million American households filed for

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bankruptcy. So they were certainly not alone, but what Arnold Dorsett said after this filing, he said, "I make good money and I work hard for it. When I filed for bankruptcy, I felt I had failed." He really felt like he was somehow personally responsible for this tragedy that had befallen this family.

What I'm arguing in the book is that this is really a tragedy that all of us should feel responsible for, because we need to build a stronger safety net so that families like the Dorsetts don't slip through the cracks and find themselves in such tragic situations.

JACKIE JUDD: And then how do you respond to critics who say that if you take the long view, more Americans own homes, more Americans have college degrees, more Americans have more appliances in their homes which they've bought - sometimes on credit, no doubt - but that there is more abundance in our lives now than 20 or 30 years ago? And that doesn't translate to economic insecurity?

JACOB HACKER: The fact is, is that if you look at middle-class incomes over the last 25 years or so, they've risen relatively modestly after you adjust for inflation. It's true that we are more likely to have some of these valued goods, like appliances, but what I'm really describing is the insecurity that comes from failing to have a basic safety net against severe economic risk, catastrophic health costs, or the risk of retiring early because of sickness in the family or

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sickness of yourself, or the risk of having your investments go sour near retirement, so you don't have enough to retire on. The fact is despite the fact that we are somewhat richer as a nation than we were a generation ago, and certainly the richest among us are much richer, middle-class families are not as protected as they used to be. Indeed, the opposite is true. Even though we've seen our country become more prosperous, all of the measures that I use in the book of economic insecurity, the number of Americans health insurance, how unstable incomes are from year to year, whether people are protected against really large drops in their income or the probability of losing a job and not being able to find a comparable one – all of those risks have actually grown even though our overall economic prosperity has grown.

JACKIE JUDD: One of the solutions you propose, more specifically in the paper that you wrote for the Bookings Institution, is this idea of having universal insurance. Walk us through that to guard against this economic insecurity.

JACOB HACKER: Sure. In universal insurance – I think of this proposal really as an outside the box idea, because so often we focus on narrowly tailored programs for very specific risks. So we'll have a health program, or we'll have an unemployment insurance program, or we'll have a program that protects retirement savings or retirement out of income adequacy. What this proposal really is about is about

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providing a broad-based, last-resort form of insurance so that all families can be protected against really severe risks. It's a lot like stop loss insurance that corporations buy. As the name implies - corporations buy this insurance to protect themselves against - to stop really big losses.

The way it would work is essentially if you had a very large drop in your family's income due to a certain specified set of risks like disabilities, ill health, unemployment or if you faced one very big expense that most families are facing today, that is catastrophic health costs, you would be able to get a modest amount of protection against those costs or those drops in income to bring you back up a little bit from the debt that you would reach if you didn't have that protection.

JACKIE JUDD: Let's go back to the Dorsett family then. How would the Dorsett family have used this universal insurance to stave off bankruptcy?

JACOB HACKER: What would have happened is that when their health care costs had exceeded 20-percent of their income in the proposal, which as you know they had \$70,000-a-year income, so \$14,000, this program would have suddenly started kicking in. The way it works in practice is that for health expenses what it would do is provide people with an ATM like card that they could use to provide to pay for additional expenses above that amount. It wouldn't cover all those expenses, but it would cover a share of them based on income. I wouldn't go

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into the details of the proposal, but the share that would be covered could be as generous as 50-percent of the expenses that were not covered under their insurance plan. It could have very well have kept them from filing bankruptcy.

The estimates that I have done were more focused on the insurance effects and what I have shown is that the probability that individual experience of very large drop in income, in their families income of 50-percent or more, would be cut in half by this proposal. It would lift roughly three million Americans out of poverty each year. Lifting out of poverty isn't even the right way to put it. It would prevent about three million Americans a year from even entering poverty in the first place. The basic idea is, let's have a safety net that makes sure that people don't fall into poverty, so that they have the foundation of security that they need to be able to live their lives, to look toward the future, to invest in their future, to have confidence about their long-term economic prospects.

JACKIE JUDD: You estimate it would cost about \$35 billion a year.

JACOB HACKER: Yes.

JACKIE JUDD: Where does the funding come from?

JACOB HACKER: In the proposal, I specify a couple possible funding sources - \$35 billion may sound like a huge amount of money and there is this old joke that is told about the late

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legislator Everett Dirksen [misspelled?] who said, "A million here, a million there and pretty soon we're talking about real money." For health policy analysts, we usually say a billion here, a billion there. Now we're talking about real money – \$35 billion though is relatively modest if you compare it with a lot of other major social programs.

For example, the Social Security program is over \$400 billion a year, Medicare is between \$200 billion and \$300 billion a year. We spend over \$100 billion a year to subsidize pensions through the tax code. So if you look at this cost, it's relatively modest in that perspective.

I would finance it – there are two proposals for financing. One would be a small income tax surcharge. The other way you could finance it is with a very modest payroll based contribution, just as we pay for Medicare or our Social Security through the tax code. We could do this as well, and it would be less than 1-percent of our wages for this kind of comprehensive insurance protections against these risks.

JACKIE JUDD: People who hear about this, some critics would probably roll their eyes and say, "Here we go again with another large government program." What makes you convinced this could work?

JACOB HACKER: There are two things I would say. One is that I actually argued that the program could be administered privately.

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JACKIE JUDD: But you also say that it could be administered through the IRS, don't you?

JACOB HACKER: That's right, and I say that the program could contract through the private sector to provide a lot of the enrollment and the payment functions, but it could also be handled by the IRS. In fact, in a lot of ways, the IRS is one of the most hated but also the most efficient institutions for doing this.

But for people that would roll their eyes, the first thing I would say is this: First of all, this is last-resort kind of protection, and really government is probably the only institution that could provide that kind of protection. Government can spread risks broadly across the population. It can make sure that everyone contributes a little bit towards the premium to protect themselves against these risks and most Americans are very supportive of a basic government role in providing such insurance as in Social Security or Medicare or unemployment insurance. These are the most popular government programs that exist. Finally, it's really a program that only kicks in when people are really experiencing hugely dire events that are really no fault of their own. I think people would be very sympathetic to families like the Dorsetts that understand that giving people a little bit of help at these difficult times is really about – not about handouts who aren't like them – but it's really about protecting people who are like us, and

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who have gone through events that we could go through at some point.

JACKIE JUDD: Looking at the big picture – stepping away from the Dorsett family. How much would a program like this remedy the problem that we hear about day after day after day and that is how to control health care spending, but how to save people from these dire bills that they get?

JACOB HACKER: This proposal is really not aiming at dealing with the broader health care problems.

JACKIE JUDD: Right, I misspoke.

JACOB HACKER: Part of my argument is that a proposal like this could be a way of making a first step toward dealing with a lot of problems that can cause economic insecurity for families. By putting on the books a little bit of these costs, it really would sensitize political leaders to the real risk that are out there, because suddenly they would recognize the extent to which there are people who are having drops in income who are greater than 20- or 30- or 40-percent. I think that it could have that important role.

The other thing I would say is that it isn't a proposal to deal with the broader problems in American health insurance. I have a proposal but it's in the book and also that I'm developing more fully for the Economic Policy Institute and will be released in early January of 2007. That proposal would essentially allow employers to purchase coverage for their

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workers through a new public insurance pool that I call Healthy America. According to the estimates would cover essentially all Americans either through this new public insurance pool or some private employment based coverage for a relatively modest cost, about \$140 a person in new national health spending.

JACKIE JUDD: We'll have you back then when it comes out.

JACOB HACKER: Okay, great. I'll look forward to that.

JACKIE JUDD: Jacob Hacker, the author of *The Great Risk Shift*. Thank you very much.

JACOB HACKER: Thank you very much for having me.

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