



# POLICY POINTS

from the COMMONWEALTH FOUNDATION

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## Guide to National Health Care Reform Proposals

*President Obama has pushed national health care reform, making it a priority. While there is no official "Obama plan," and several different proposals in Congress, the leading proposals have several common themes. Unfortunately, instead of learning from the mistakes of state-based health care reform, these proposals repeat them.*

### BILLIONS IN NEW HEALTH CARE SPENDING

- Leading health care proposals would create a health insurance exchange, operated by the federal government, where insurance policies are sold, and would offer subsidies for individuals and families buying insurance on the exchange.
  - ⇒ The bill sponsored by Sen. Max Baucus (D-Montana) is estimated to cost **\$829 billion** over the next 10 years.
  - ⇒ HR 3200 is projected to cost a bit over **\$1 trillion** over the next 10 years.
  - ⇒ These projections **understate the true cost** -- not accounting for: annual costs which will be much higher at the end of that 10-year window and beyond, parts of federal spending, the additional costs to state governments, and the costs shifted to the private sector.
- Taxpayer subsidies for insurance will be available for those earning up to 400% of the federal poverty level. This equates to **\$88,000 for a family of four** in 2009.
  - ⇒ This essentially creates a new quasi-entitlement health care program for the middle class.

### GOVERNMENT-ESTABLISHED INSURANCE PROGRAM

- HR 3200 would establish an insurance program run by the federal government, and available on the Exchange, to compete alongside private plans.
  - ⇒ This so-called "public option" has been the most controversial of the new programs, with proponents frequently changing their mind about whether this is a critical component.
  - ⇒ Critics of the public option believe it is the **first step to a single-payer system**. Supporters of the public option also suggest it is the first step to a single-payer system.
  - ⇒ Lewin Associates predicts 89.5 million people will be pushed into on the public plan. This is part of a trend known as "crowd out" -- studies show that 40 to 60% of enrollees in government health insurance previously had private coverage.
- The Baucus Bill would create nonprofit "co-ops," giving **\$6 billion in federal grants** to start up co-ops and state-based health care exchanges.
  - ⇒ While seemingly less dangerous, these co-ops are little more than the public option under a different name. They would -- initially at least -- have benefits and prices set by the federal government and would be overseen by the Department of Health and Human Services.

## NEW MANDATES

- **The Individual Mandate:** All individuals would be required to buy health insurance coverage, which meets federal standards, or face a penalty (see below for details on penalties).
  - ⇒ Massachusetts adopted a health insurance mandate in 2006, and has since seen insurance **premiums skyrocket** and wait times increase.
  - ⇒ Even individuals who have insurance may be, and have been, subject to fines.
- **The Employer Mandate:** Businesses, with some exemptions or tax credits for small business, would be required to provide a mandated level of coverage to employees or pay a tax or fine (see below for details on taxes and fines).
- **Coverage Mandates:** All insurance plans sold on the exchange, and many sold in the private market, must meet government-dictated minimum benefit requirements.
  - ⇒ The mandates would be on top of existing state mandates; Pennsylvania has legislated 52 coverage mandates. These mandates **increase the cost of insurance**.
- **Guaranteed Issue and Community Rating:** Current proposals would impose these regulations on health insurers nationally.
  - ⇒ Guaranteed issue implies that insurance companies must provide insurance almost regardless of the risk inherent in age and medical history -- making it advantageous to wait until you get sick to buy insurance.
  - ⇒ Community rating requires insurers to charge relatively the same rate regardless of health status, age, or behavior. This may lower costs for some, but would increase coverage costs for many, i.e. young, healthy non-smokers.
  - ⇒ States that have implemented guaranteed issue and community rating laws have higher insurance costs and **more uninsured residents**.

## NEW TAXES

- **Tax on the Uninsured:** To pay for health care subsidies, and to enforce the individual mandate, the leading health care reform plans would impose a tax on individuals without the mandatory level of coverage.
  - ⇒ HR 3200 would impose a tax of 2.5% of income; the Baucus Bill would impose an excise tax of up to \$750 per individual.
- **Tax on Employers:** Employers who don't provide the mandated level of coverage to employees would also be taxed.
  - ⇒ Baucus Bill: \$400 per full-time employee (for firms with 50 or more workers); H.R. 3200: Payroll tax of 8% (for firms with payroll over \$200,000).
  - ⇒ Employers that currently provide coverage may be encouraged to simply pay the tax and drop coverage for employees, letting them take subsidies to buy individual insurance on the exchange (see previous discussion of "crowd-out").
  - ⇒ Employers that don't currently provide insurance will likely pass on these costs to employees. That is, **workers who don't get employer health benefits will likely see a pay cut**.

- **Tax on "the rich":** HR 3200 proposes a new "surcharge" tax on high income earners -- a 1% tax on income from \$350,000 to \$500,000, 1.5% from \$500,000 to \$1 million, and 5.4% above \$1 million.
  - ⇒ The tax rates can automatically double if more revenue is needed.
  - ⇒ Combined with the expiration of tax cuts (i.e. scheduled tax increases), this would push the top marginal tax rate above 50% in 39 states. Over 60% of those affected would be small business owners.
- **Tax on Benefits:** The Baucus Bill would impose a tax on employer-provided "Cadillac" or premium plans.
  - ⇒ The tax would be 40% of the value of plans over \$8,000 for individuals and \$21,000 for families (adjusted for inflation in out years).
  - ⇒ During the campaign, Obama criticized John McCain for proposing a tax on employer benefits, though McCain's plan included an individual tax credit that more than offsets the tax on benefits. The proposed tax would simply be a new revenue source.
- **Tax on Health Care Products:** The Baucus Bill levies fees against all insurers (\$6.7 billion), medical device manufacturers (\$4 billion), and pharmaceutical producers (\$2.3 billion).
  - ⇒ The taxes in the Baucus Bill would cost an estimated \$2,000 per family, and 90% of that burden will be shouldered by those making \$200,000 or less.

### RATIONING OF CARE

- These plans are to be partly funded by **\$500 Billion in Medicare savings**. It remains unclear exactly how these saving will be achieved, other than the vague notion of eliminating "waste" and "unnecessary care" (which could/should have been eliminated long ago). In addition, the government's definition of unnecessary care may differ from the patient's.
- The current proposals would cuts payments to Medicare Advantage, which provides supplemental coverage for about 20% of seniors on Medicare.
- Obama has proposed creating a new research institute to study the value of treatments, setting valuations of procedures and quality of life, to help overcome political obstacles to denying care.

### PROBLEMS WITH CURRENT GOVERNMENT HEALTH CARE PROGRAMS

Defenders of national health care proposals try to make the claim -- in response to critics -- that government-run health care is pretty good, citing Medicare. So what's wrong with "Medicare for All"?

- Medicare's coverage is substandard:
  - ⇒ Medicare recipients spend more per household (and a much a higher share of their income) on out-of-pocket expenditures than do non-Medicare households
  - ⇒ Over half of all Medicare recipients buy supplemental health insurance, or get it from their employer. An additional 22% are enrolled in Medicare Advantage.
- Medicare has **higher** administrative costs per person than private insurance.
- Medicare is **going bankrupt**, with \$89 trillion in unfunded liability.

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- Medicare and Medicaid underpay doctors and providers, resulting in:
    - ⇒ An increasing number of doctors who refuse to accept Medicare and Medicaid patients.
    - ⇒ **Cost shifting** -- Medicare shifts billions in costs on to providers, which results in increasing premiums for private coverage.

### **EFFECTS OF NATIONAL HEALTH CARE IN PENNSYLVANIA**

A recent Commonwealth Foundation study found that an additional \$1 trillion in health care spending by the federal government would have the following effects:

- Add **\$4,453 in additional health care costs** for every man, woman, and child in Pennsylvania.
- Increase medical price inflation by 5.2% above what it would have been otherwise by 2019.
- Despite the additional \$1 trillion in expected health care subsidies, 30 million people nationally would remain uninsured. The cost to reduce the number of uninsured by 16 million is \$62,500 per person insured.
- Pennsylvania's economic growth in 2019 compared to the baseline scenario would be reduced by 5.1%.

### **PATIENT-CENTERED ALTERNATIVES**

While proponents of a government-run health care suggest the only options are to either support "reform" (i.e. their proposals) or the status quo, there are alternative solutions to lower the cost of health care and give patients more control. These include:

- **Use the tax code to promote equity.** Individuals should receive the same tax benefits for purchasing insurance as businesses, so that they -- not employers or government -- own their health coverage.
- **Allow individuals and small businesses to buy insurance across state lines.** One estimate suggests interstate competition would reduce the number of uninsured by 25 to 33%.
- **Allow individuals to opt out of certain mandates or buy "mandate-lite" insurance.**
- **Repeal state laws which drive up the cost of prescription drugs,** requiring higher prices than places like Wal-Mart would otherwise charge.
- **Overhaul the Medicaid system,** converting Medicaid spending into simple vouchers for low-income individuals to purchase their own insurance.
- **Adopt tort reform,** eliminating frivolous suits, jackpot jury awards, and defensive medicine that drive up the cost of health care.

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*The Commonwealth Foundation is an independent, non-profit public policy research and educational institute, based in Harrisburg, PA.*

