# WHAT'S RIGHT AND WRONG WITH BUSH'S HEALTH PLAN

George Bush has taken the bold first step toward solving the underlying problem of America's health care system. He has offered a plan that would make it much easier for uninsured Americans to obtain coverage. This is a very welcome proposal. But it does not go nearly far enough to deal with all the health insurance problems facing Americans. Thus unless Bush takes his reform package to its logical conclusion, he will not deal fully with the health care crisis. By avoiding a more comprehensive reform, moreover, he may actually increase the political obstacles to enactment of his limited plan.

According to surveys, the biggest health care concern facing most Americans is that if they change jobs, or lose them, they face the loss of health benefits—and potential financial catastrophe. Of concern too is that millions of other Americans have no health coverage at all, because they lack a company plan. In addition, employers and their workers, who pay part of their company coverage, worry about the surging cost of health insurance.

These problems arise because tax benefits are available in most instances only for company-sponsored health plans. This has led to health insurance—unlike life insurance, auto insurance or homeowners insurance—being based on the place of work. Thus if the worker leaves his or her company, the worker and his family can suddenly lose coverage. And workers in companies that do not provide coverage typically do not have insurance. If they then buy their own plans, they must pay for them in after-tax dollars. By contrast, the favorable tax treatment of, say, a whole life insurance policy has nothing to do with the place of work, and the breadwinner in a family does not lose his life insurance when he changes jobs.

Moreover, because most health coverage is "paid for" by employers, workers tend to have the illusion that coverage is largely free. This leads them not to question the cost of health services or to seek the best value for money in a plan. This in turn encourages health care providers to raise prices rapidly and makes it difficult for firms to control costs without incurring employee anger.

**Health Voucher.** The Bush plan would solve at least some of these problems. It introduces a refundable credit, which in effect is a health voucher, for lower-income Americans. With the credit, these Americans can purchase a health care plan irrespective of their place of employment or even if they are employed. The Bush plan also makes it much easier for middle-income families to deduct from taxable income the cost of health plans they purchase. This makes the tax treatment of these individually purchased plans much like that of company-sponsored plans.

The Bush proposal thus ends the tax benefit monopoly of only company-sponsored health plans. Under the Bush plan, Americans who work for small firms without plans, or who are casual or seasonal workers, or who often change their jobs, would have tax breaks to pay for health coverage that they would take with them from job to job, just as they do with a typical life insurance plan. Since these Americans would pay the premium themselves, albeit with tax help from the government, they would also have the financial incentive to seek the best value for money.

While some of the regulatory changes in the Bush proposal raise concerns, one helpful step makes it easier for insurance plans to be offered to groups of individuals. Thus, groups of small employers, or organizations other than employers—perhaps unions, churches, or farm bureaus—would be able to develop and market competitive health insurance plans for families. Union-sponsored plans already are a major feature of the health system for federal employees. The Mail Handlers plan, for instance, has about 500,000 enrollees, over 90 percent of whom are not even members of the union. Bush's insurance reform permits such union plans to be offered nationwide.

Where the Bush proposal falls short technically and politically is in the way it would pay for the new credits and deductions, estimated to cost the Treasury $100 billion in lost revenue over five years.

**Tax Overhaul.** The best way to finance the plan would be through an overhaul of the entire tax treatment of health spending; this could be "budget neutral," meaning no revenue would be lost to the Treasury. An example of this approach is The Heritage Foundation's Consumer Choice Health Plan. It would phase out the tax-free status of company-based health plans, replacing it dollar for dollar with a tax credit for all families, not just the poor. Workers with employer plans today could take the cash value of their plans and buy alternative coverages, pocketing any savings.

Calculations for The Heritage Foundation conducted by the Washington D.C.-based econometric firm of Lewin/ICF, recognized experts in assessing the costs and impact of health care, indicate that such a changeover in tax breaks would leave most middle-income families slightly better off, with lower taxes and lower out-of-pocket health costs. More important, the Heritage plan offers two distinct advantages. First, workers currently insured by their company would have a financial incentive to seek a better value plan from another source; the competitive dynamics created by this would tend to reduce total health costs. The Bush plan, by not addressing the tax treatment of company-sponsored plans, does nothing to encourage cost control in these plans. Second, by allowing workers to choose plans unconnected to their place of work, the Heritage reform would make it easier for all workers to obtain "portable" health plans. The Bush proposal does not include such a comprehensive tax reform.

Thus Bush Administration is, in fact, very vague about how the new tax benefits will be financed. It appears part of the cost will be paid for by adjusting the federal government's support for Medicaid. A Medicaid formula change makes sense, since the new federal credit means the states would enjoy billions of dollars of savings in Medicaid and other programs for the uninsured. The Bush proposal also would encourage greater use of cost-saving managed care in Medicaid, another welcome step.

It is unclear how the rest of the cost will be financed. One proposal floated earlier—but not included in the plan—was to place tighter price controls on Medicare fees. This would make no sense, from either a policy or political point of view. Years of price controls already have distorted Medicare treatment practices and encouraged doctors treating the elderly to "shift" those costs not fully reimbursed by Medicare onto the bills of other patients. Tighter price controls simply would compound this problem. From the political perspective, elderly organizations likely would charge that the Bush plan is a cut in Medicare. While this claim would be an exaggeration, it could trigger powerful opposition to the whole plan from elderly interests.

**Major Improvement.** For all its shortcomings, however, the Bush proposal is a major improvement over almost all the other health care proposals under consideration in Washington. Unlike proposals to establish a nationalized system in the United States, like that of Canada, the Bush plan would not mean systematic rationing and exploding government health budgets. And unlike proposals (some called "play or pay") to make employers offer insurance or pay a tax to cover workers in a public program, it would not raise labor costs and cast tens of millions of Americans into a mega-Medicaid program. Now that he has taken his first bold step, Bush vigorously should keep moving America toward a universal health system based on consumer choice and competitive private markets—the same dynamics that have been the keys to efficiency and consumer satisfaction in every other part of the U.S. economy.

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**For further information:**

Stuart M. Butler, "A Policy Maker's Guide to the Health Care Crisis, Part I: The Debate Over Reform," Heritage Foundation *Talking Points*, February 12, 1992.