

Web Memo



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A Health Policy Agenda for the House of Representatives

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Last month, the United States Senate scheduled a “Health Week” to consider modest changes to the health care system. It failed to pass anything. The House of Representatives can do better. It can make serious progress in health care reform by considering legislation that would meaningfully change the health care system to improve access and affordability. The House of Representatives should consider policies that promote personal control over health care dollars, expand consumer choice and competition, and reduce the regulation of health care.

Key Tests for Health Care Policy

The House of Representatives must decide whether to proceed with an aggressive health care agenda or avoid this difficult task by focusing on important but ancillary issues. Three key tests will determine whether its proposals are sufficiently bold:

- **Personal control over health care dollars.** Proposed legislation should call for an increase in individuals’ and families’ control over the flow of health care dollars. It should not leave control of

dollars in the hands of employers, managed care networks, or government officials.

- **Expanded consumer choice and competition.** Proposed legislation should call for an expansion of individual choice of health plans and benefits. Legislation should also encourage direct competition among health plans, providers, and insurance products for individuals’ and families’ dollars.
- **A net reduction in health care regulation.** Proposed legislation should call for a net reduction in the excessive amount of regulation of the health care system. Legislation should encourage competition among the states to deregulate their insurance markets to make health care coverage more affordable for all Americans.

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A New Health Care Agenda

Several policy initiatives meet these key tests. An individual tax credit for the purchase of health insurance would eliminate the current inequities in the federal tax code and enable individuals to buy and own a health care policy of their choice. Giving individuals and families the right to purchase the health plan of their choice, even if that plan is domiciled in another state, would expand consumer choice. Health savings accounts and other health related accounts could be improved by making their use more flexible and consumer friendly. Allowing employers to convert from a defined benefit to a defined contribution system for their employees' health plan would enable individuals and families to choose the health benefit packages that best meet their personal needs. Finally, the promotion of state-level experimentation in health care reform would give state policymakers greater flexibility and access to federal resources to test ways of expanding and improving coverage for their citizens.

Major Policy Initiatives for a House Health Care Agenda

If Congress is serious about meaningful change, the following proposals would make great strides toward a more patient-centered, consumer-driven health care system.

- **Establish an individual health care tax credit.** The most important change to the health care system would be to reform the tax treatment of health insurance. The federal tax code shapes health insurance markets, and so health care reform is not possible without making serious changes to the federal tax treatment of health insurance. The Heritage Foundation, along with many other health care analysts and economists, has long supported the replacement of the current health care tax preferences, including the employer-based "tax exclusion" for

employees' health benefits, with a national system of individual health care tax credits. This major change would lead to universal access to health care coverage, the elimination of distortions in the health insurance market, and a resurgence of consumer choice and competition.

At the very least, the House of Representatives should create a parallel system of tax relief for individuals and families who do not or cannot obtain health insurance through the place of work. A health care tax credit could take many shapes. For example, a targeted health care tax credit, focused on lower-income workers who do not fit into the current employer based model, would give these individuals an alternative and a chance to afford health care coverage. This is an important first step to ending the discrimination in the tax code that penalizes lower-income working families. In constructing any tax relief, Congress should also avoid specifying the type of health insurance product or arrangement that individuals could choose.¹ Leaving these options open promotes individual choice, encourages prudent plan selection, and reduces further distortions in the market.

- **Allow individuals to purchase health care coverage from other states.** Too many states have overregulated their health insurance markets and made it unattractive and unaffordable for many of their citizens to obtain health care coverage.

Some Members of Congress seek to resolve this problem by adding yet another layer of regulation on the already overregulated health insurance market. A

better idea is to open market competition. Instead of trying to standardize health care regulation across the country, Congress should spur competition among the states by allowing individuals to purchase affordable health care coverage from other states. This approach has two advantages. First, it would empower individuals to purchase a health plan from among a broader assortment of health care products that meet their financial and health care needs. Second, it would retain the primacy of state authority over health insurance law and regulation, thus respecting the principles of federalism. Representative John Shadegg (R-AZ) has sponsored the “Health Care Choice Act” (HR 2355), which would accomplish these objectives. The legislation is based on the interstate banking model and focuses solely on allowing interstate commerce in individual health insurance. As well, the House could also consider expanding interstate commerce to include group health insurance arrangements.

- **Make improvements to Health Savings Accounts (HSAs).** A key objective of HSAs is the promotion of direct payment of health care dollars, without a tax penalty, to doctors and other medical professionals. This aspect of HSAs levels the playing field in the marketplace between traditional health insurance and these new tax-free payment arrangements. Ideally, Congress should separate the savings component of HSA arrangements from the federally designed high-deductible health plan requirement. This concept is supported by several free-market think tanks, including the National Center for Policy Analysis (NCPA) and the Cato Institute. This change would encourage individuals to

save for their health care expenses and give them full control over how best to use those savings, whether for premiums, deductibles, or other cost-sharing requirements.

At the very least, the House of Representatives should make technical improvements to the design of HSAs. First, individuals who buy their own HSA policy should be allowed to use the HSA to pay premiums, which they cannot do today. To this end, Representative Sam Johnson (R-TX) has introduced the “HSA Premium Affordability Act” (H.R. 5586) to allow individuals to use their HSAs to purchase non-group coverage under a high-deductible health plan. Second, the contribution levels for HSAs should be increased to match total out-of-pocket expenses, not just the deductible. Finally, changes should be made to better coordinate HSAs with other health accounts, such as Health Reimbursement Arrangements (HRAs) and Flexible Spending Accounts (FSAs). For example, individuals and families should be able to transfer funds from these accounts into their HSAs or, in the case of an FSA, to take the balance as taxable income. To these ends, Representative Eric Cantor (R-VA) has introduced the “Tax Free Health Savings Act” (H.R. 5262), a comprehensive HSA proposal that reflects several of these recommendations.

- **Permit employers to transition to a defined contribution system for employee health insurance benefits.** The rules that govern the employer-based health insurance system force employers to make an all-or-nothing decision about health insurance coverage: An employer

can either offer coverage to all employees, sometimes at a great cost, or offer no health care assistance at all. This undermines the provision of health insurance coverage for workers, particularly in small firms.

Congress should give employers another option by allowing them to contribute directly to a worker's personal health care plan. While some employers may not be able to afford to sponsor a full benefit package, they may be willing to provide a financial contribution to help their employees purchase their own health care plan. Legislation that clarifies that such a contribution does not qualify the individual plan as a group would facilitate this kind of arrangement while allowing the business to avoid costly and burdensome regulation. Representative Tom Price (R-GA) has introduced H.Res. 215, which expresses the need for a full overhaul of the health care system based on a defined contribution model.

- **Enact a federalism initiative.** Under the federalist approach, states could become laboratories of change and offer new and more effective ways to expand health insurance coverage, to control costs, and to improve the quality of health care. Congress should give states regulatory and financial flexibility to experiment with developing and designing health care policy solutions. State face different challenges in their health care system, and an approach that encourages experimentation would give states the opportunity to focus on creating different solutions that reflect their unique circumstance. Moreover, experimentation could provide valuable lessons to federal and state policymakers.ⁱⁱ

Conclusion

The Senate has thus far failed to enact any serious health policy legislation. The House of Representatives can do better. In fact, House Members have an opportunity to improve the lives of ordinary Americans substantially. They can do this through legislation that increases personal control over health care dollars, expands consumer choice and competition in health insurance markets, and results in a net deregulation of the health care system. If Congress is unable to move such initiatives at the federal level, it should, at the least, encourage enactment of meaningful health care reforms at the state level.

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ⁱ See Nina Owcharenko, "Getting Health Savings Accounts Right," Heritage Foundation *WebMemo* No. 1127, June 14, 2006, at

www.heritage.org/Research/HealthCare/wm1127.cfm.

ⁱⁱ Members of the House of Representatives and the U.S. Senate are working on legislation to reflect this approach. See Stuart M. Butler, "The Bingaman-Voinovich Bill: Letting the States Take the Lead in Extending Health Insurance," Heritage Foundation *WebMemo* No. 1128, June 15, 2006, at

www.heritage.org/Research/HealthCare/wm1128.cfm.