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The Health Insurance Exchange: Enabling Freedom of Conscience in Health Care

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Health care is fraught with difficult issues that divide Americans on matters of conscience. Many of the hottest issues in social policy intersect with health care spending, such as abortion, assisted suicide, rationing of care at the end of life, and embryonic stem cell research. Issues of moral conflict will only increase as high-tech medicine advances.

Americans should be free to choose health care coverage that does not subsidize procedures to which they morally object. Health care reform should be based on the principles of economic freedom and freedom of conscience to ensure that consumers are able to receive care, and health care providers are able to offer care, that does not violate their individual consciences. The most promising policy vehicle to give individuals this freedom is the state-based health insurance exchange (HIE), an idea under consideration in a number of states.

The Constraints of the Current System. Freedom of conscience is a cherished American ideal. Excellence in health care is also prized in our society. These two goods are not, and must not be allowed to become, mutually exclusive. Health care reform should ensure that Americans have excellent health care without having to compromise their deeply-held conscientious beliefs. One solution to the values impasse in health care is to maximize citizens' economic freedom of choice in selecting health coverage. Greater consumer freedom will allow greater freedom of conscience.

Consider the case of a hypothetical "John Smith." John Smith believes abortion is morally wrong, and he

would never want to subsidize it. But John has heard that 46 percent of workers have employer-based health coverage that finance abortions.¹ John asks about his own company's plan and learns that his employer-provided health care plan covers abortions.

John looks into buying his own insurance but finds that the cost is prohibitive. Not only are the premiums considerably higher, but because he, as an individual, no longer can get the same tax breaks that he could if he were enrolled in his employer's plan, he would be buying his own health insurance with after-tax dollars—effectively paying an additional 40–50 percent more than the cost of the employer plan.² He cannot afford to do this. If John had access to a refundable, individual health care tax credit for his insurance costs, he could purchase a health plan in harmony with his convictions.

The current employer-based health insurance system makes purchasing individual coverage prohibitive to many people: to the unemployed and the underemployed, to people whose employer-chosen plans do not fit their individual or family health care needs, and to people like John Smith who have moral objections to paying for controversial items in their employer's health plan.

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Remedies for the Smiths of the World. What John Smith and others like him need are more choices that would yield higher satisfaction and lower costs. It is a long way from the present system of limited choice, low satisfaction, high cost, and constricted options to a new system that would empower individuals economically and ethically. One of the most promising developments in consumer-based health care reform is the state-based health insurance exchange, a single market that can offer a wide variety of health plan options.

Properly designed, an HIE can create a state-wide health insurance market for all kinds of health plans. Think of a farmers' market: a single location where anybody can voluntarily purchase a variety of items. An HIE can do the same with health insurance: A wide variety of insurance products would be available, and anybody could shop.

HIEs have a number of advantages,³ including:

- **Insurance Portability:** When individuals are able to purchase health insurance for themselves in a HIE marketplace, the insurance belongs to them. Even if they change jobs, move, or quit working and retire, they own the policy and can keep the same health insurance if they so choose.
- **Increased Diversity of Plans:** An open market for health insurance plans would allow consumers to organize their health care interests—both economic and ethical—and create demand that would lead to the creation of new health insur-

ance products. For example, faith-based organizations might choose to rate or sponsor health insurance plans that accord with their moral principles.

Further policy changes would make the HIE more effective. These include:

- **State-Level Deregulation:** Among the 50 states, insurance providers are subject to at least 1,824 mandates for medical services, treatments, procedures, and providers.⁴ Twenty-nine states require coverage for contraceptives, and 15 states mandate expensive in-vitro fertilization (IVF) coverage.⁵

Reducing the number of mandated services would allow the insurance industry to respond with more flexibility to consumer demands and offer a wider variety of coverage. Mandates requiring insurance plans to cover procedures like hair transplants—a practice that is unlikely to elicit moral objections, but many might not think they should have to subsidize—for example, should be eliminated. Likewise, coverage of procedures like IVF—an expensive procedure to which moral objections have been raised—should be optional, not mandated by states. The more consumer control there is, the more space there will be for the individual conscience.

- **Tax Equity:** A refundable health care tax credit for individuals would level the playing field between what an employer may offer and what an individual can buy for himself. President

1. Henry J. Kaiser Family Foundation and Health Research Educational Trust, *2003 Employee Health Benefits Survey*, p. 109, Exhibit 8.2, at www.kff.org/insurance/upload/Kaiser-Family-Foundation-2003-Employer-Health-Benefits-Survey-Full-Report.pdf (October 21, 2005).
2. Robert E. Moffitt, "The Rationale for a Statewide Health Insurance Exchange," Heritage Foundation *WebMemo* No. 1230, October 5, 2006.
3. For more information about the merits of state HSEs, see Nina Owcharenko, Edmund Haislmaier and Robert E. Moffitt, Ph.D., "Competition and Federalism: The Right Remedy for Excessive Health Insurance Regulation," Heritage Foundation *WebMemo* No. 1060, May 5, 2006; Edmund Haislmaier, "The Significance of Massachusetts Health Reform," Heritage Foundation *WebMemo* No. 1035, April 11, 2006; and Edmund Haislmaier, "Issues 2006: State-Based Health Care Solutions," The Heritage Foundation, 2006, at www.heritage.org/research/features/issues/issuearea/Healthcare.cfm.
4. Merrill Matthews, Director, Council for Affordable Health Insurance, testimony before the Subcommittee on Health, Committee on Energy and Commerce, U.S. House of Representatives, June 28, 2005, p. 4, at www.cahi.org/cahi_contents/issues/MMChoiceTestimony.pdf (April 10, 2006).
5. Victoria Craig Bunce and J. P. Wieske, "Health Insurance Mandates in the States," Council for Affordable Health Insurance, January 2005, at www.cahi_contents/resources/pdf/MandatePubDec2004.pdf (April 10, 2006).

Bush recently proposed a measure to accomplish this. In the absence of this tax reform, employers could designate the health insurance exchange itself as their “plan” for the purpose of federal and state taxes. An employer’s defined contribution on behalf of an employee would then be tax free, just as it would be for conventional employer-based health insurance, and the employee would have the freedom to select a plan of his choice.

Conclusion. State-level health insurance exchanges present a promising opportunity to offer greater freedom of choice and freedom of con-

science. They would give individuals and families access to greater choice, including health plans sponsored or endorsed by religious groups or others whose moral convictions shape their views of controversial health care practices. Short of congressional action to reform the tax treatment of health insurance, state action to create health insurance exchanges is the best way for individuals and families to secure personal, portable, affordable health insurance in keeping with their convictions.

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