

# WebMemo



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## Health Insurance Reform: What Families Should Know

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America's doctors and medical institutions are the envy of the world. The level of expertise and the pace of innovation in U.S. health care are unmatched. Yet, many Americans worry whether they will have access to medical care when they need it. The reason is that America's health insurance system does not function very well. Too many Americans lack health insurance, there are gaps in coverage, and costs are increasing at an alarming rate.

Some politicians want to put the entire health care system under government control, but common sense stops many citizens from embracing that "solution." Other politicians are content to do nothing, or they defend an increasingly indefensible status quo.

The conservative alternative to "socialized medicine" is to enact serious reforms in current tax and insurance law that would expand personal ownership and control of health insurance and transfer the control of health care dollars to individuals and families. Citizens can help to achieve that goal by becoming informed about the best policy alternatives to advance their personal freedom.

**Freedom of Choice.** Most American businesses operate in something closely resembling a free market: Consumers are free to pick and choose goods and services. Thus, consumers have the ultimate say about what succeeds and what fails in sectors such as cars; fashion; music; restaurants; and financial services; as well as in other areas of insurance, such as auto, life, and homeowners insurance. Yet, this fundamental principle is absent from the health insurance market in the following ways:

**Limited Choice.** Free market forces, driven by consumer decision-making, do not operate in America's private health insurance system. Soon after World War II, Congress made changes to the tax code that tied a patient's access to health insurance to his or her employer. Under the current legal regime, the employer buys a worker's health plan, determining what it will cover and how much it will cost. The key decisions are made by employers, not patients.

**No Portability of Coverage.** In the current system, the worker pays for the health insurance policy (which is part of his compensation), but the employer owns it. Therefore, workers cannot take their policies with them if they change jobs. Even if it offers the same package of benefits, buying a health insurance policy outside of work can cost up to 50 percent more than getting it through an employer. The lack of a tax benefit puts the cost of individual health insurance out of reach for many people.

**Problems of Conscience.** Some patients have moral or religious objections to what is included in their health insurance packages. According to a 2003 Kaiser Family Foundation survey, for example, 46 percent of workers getting health insurance from their employer are also paying for abortions

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through their premiums. Workers who find this objectionable are powerless to change it because, in most cases, they have no choice about the health insurance they get at their place of work. They get what their employer gives them.

**Federal Steps to Expand Choice.** Congress should consider the following steps for expanding personal choice and portability in health care coverage:

- Create a federal health care tax credit that offers the same tax benefit for buying health insurance on the individual market that is currently available only for buying through an employer.
- Allow people to own their own health insurance, without a tax or regulatory penalty, which would allow them to keep it no matter where or whether they work. This would enable individuals and families to carry their coverage from job to job without changing their health care policy. This would mean true portability in coverage.
- Remove statutory prohibitions and any tax or regulatory penalties that apply when individuals and families want to buy health insurance sold in another state.

**State Steps to Expand Choice.** States should consider the following options for expanding personal choice and portability of coverage within their borders. It should be noted that some states are already pursuing these goals.

**Creating a Health Insurance Exchange.** Unless and until Congress changes the tax treatment of health insurance at the federal level and creates direct and individual tax relief for individuals and families, real consumer choice will not drive the health insurance markets.

In the absence of this kind of federal tax reform, one promising idea being advanced by forward-looking state legislators is the creation of a “health insurance exchange.” Basically, this would work like a “stock exchange” for health plans. Consumers would buy the health plans they want, and employers would make a defined contribution to the “exchange” to cover the cost of the chosen plan.

Under this approach, the “exchange” would be designated as the employer’s plan under federal law;

therefore, the employer’s contribution and the value of the employee’s chosen plan would be *tax free* under federal law. The key change is that the employee—not the employer—*owns* the health plan and can take it from job to job. Thus, a state-wide health insurance exchange would make health plans both *personal* and *portable*.

**Reviewing and Repealing State Mandates.** State mandates are laws that require insurance policies to cover specific benefits or medical services. Nationwide, there are almost 2,000 state-legislated health insurance mandates. Some of them are ethically objectionable or controversial. In vitro fertilization, for instance, is mandated in 13 states; contraceptives, in 30. State officials should identify and repeal costly, outdated, unnecessary, or ethically objectionable or controversial benefit and provider mandates.

**Endless Possibilities.** Taken together, these federal and state reforms would expand personal ownership and control of health insurance. Needless to say, these changes would be opposed by many big institutions that profit under the status quo, especially firms that would be forced to change their way of doing business. Under such reforms, individuals and families would become the key decision-makers, and companies would have to compete for their business. But when companies compete, customers win.

Although big change would not happen overnight, such reforms would bring real freedom of choice to health care. The possibilities would be endless. For example, a faith-based fraternal organization might decide to sponsor a health insurance plan consonant with the ethical and moral values of that faith. Persons from all over the country could buy the health plans that they wanted. Large, national pooling arrangements would develop, and costs would come down.

**How Individuals and Families Can Help.** The first step toward changing the status quo is becoming informed. A citizen can learn about his or her health insurance situation in the following ways:

*First*, workers should ask their employers whether their plans require workers to pay for abortions or others services that they find morally objectionable.

*Second*, citizens should find out who in the state makes regulations that affect insurance and how those regulations affect patients and health plan premiums. In some states, citizens elect an insurance commissioner; in others, the governor appoints one. In some states, legislatures enact mandates; in others, the insurance commissioner simply imposes them.

*Third*, individuals and families should become familiar with their states' insurance mandates. These mandates force patients to pay for benefits or services that they do not want or find morally objectionable. If a state is considering a health insurance exchange, individuals, families, and policymakers have an opportunity to examine the entire insur-

ance system. They can learn about objectionable mandates and ask their legislators to remove them.

**Conclusion.** The conservative alternative to "socialized medicine" is giving individuals and families the freedom to choose the health care that they trust. Policymakers at both the federal and the state level have many options for restoring freedom of choice to the private health insurance system. Citizens have a critical role to play by becoming informed and pressuring lawmakers to remove the regulations and policies that restrict personal choice.

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