

# WebMemo



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## The Baucus Health Reform Plan: A Starting Point for Serious Discussion

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Senate Finance Chairman Max Baucus (D-MT) has just unveiled a comprehensive health plan in the form of a white paper, which he sees as framing the upcoming debate on health care reform.<sup>1</sup>

The introduction of Senator Baucus's plan is a welcome development in that it puts some flesh on the bones of ideas that have been circulating in policy circles. It also indicates a more open conversation about health reform than occurred during the last major effort at reform, which was characterized by the secretive health task force of the Clinton Administration.

**Rigging the Rules for “Medicare for All.”** Among the key proposals in the Baucus document is a health exchange. While the idea of an exchange generates broad interest and support among a wide range of policymakers, Baucus—like President-elect Obama—proposes a national exchange rather than encouraging a variety of state exchanges that would reflect local conditions and stimulate state creativity in designing better access to private health insurance. While it is true that a national system of exchanges can achieve a well-functioning health insurance market across the U.S., it would be wise to let states propose the best ways of realizing those objectives.

Within his national exchange, Baucus also proposes letting a new public plan “similar to Medicare” compete with private health plans. This approach is fraught with difficulty and danger, because the federal government would then “own”

a plan in the competition while also setting the rules for that competition. Who can doubt that the rules would be rigged in favor of the Medicare-style public plan?

**A Level Playing Field.** There is a good argument to be made for assuring the existence of some type of reliable plan that Americans with major health problems can afford. Senator John McCain (R-AZ) acknowledged that in the 2008 presidential campaign, and proposed a program of guaranteed access to coverage. But Baucus needs to work with others to achieve two things:

1. **Develop an alternative to a Medicare-style “public plan” that can achieve the same objective.** In the Federal Employees Health Benefits Program (FEHBP), for instance, the government has arranged for a variety of affordable national plans to be available in conjunction with numerous local plans and does not run a competing public plan.
2. **Find a way of structuring competition that guarantees a true level playing field.** In the FEHBP, for example, national private health plans, not the taxpayers, bear the insurance risk and compete fairly with local coverage options.

This paper, in its entirety, can be found at:  
[www.heritage.org/Research/HealthCare/wm2132.cfm](http://www.heritage.org/Research/HealthCare/wm2132.cfm)

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Without a convincing way of doing both of these things, it will be very hard to dispel the idea that Baucus's combination of a national exchange with a public plan is anything other than a stalking horse for a single-payer "Medicare for All."

**Tax Treatment of Health Care.** A very welcome feature of the Baucus document is its discussion of the federal tax treatment of health insurance. Federal tax treatment of health insurance is widely understood as a fundamental element in achieving affordable health care reform. It is arguably the most important factor shaping the health insurance markets and thus a key driver of the incentives that dominate health care financing and delivery. As the Baucus document notes, "Many economists argue that the unlimited employee tax exclusion leads to increased health spending."

Baucus suggests an incremental approach to reforming the tax treatment of health insurance by proposing a cap on the existing tax exclusion. Thus workers would retain their tax-free health care benefits but there would be a maximum amount that could be excluded from their taxable income. This approach is consistent with other tax-preferred benefits, such as 401(k)s and health savings accounts. Baucus also proposes expanding coverage through targeted tax subsidies. This discussion of the tax treatment by the finance chairman could lead to a very productive bipartisan conversation. Hopefully, President-elect Obama will join in that conversation.

**Entitlement Expansion.** Distressingly, Baucus would support entitlement expansions, which is hard to defend given the unsustainable nature of

existing entitlements.<sup>2</sup> Medicare and Medicaid are already fiscally unsustainable, and expanding these programs now just exacerbates the existing problem. The expansion of these programs would also further crowd-out private coverage options in favor of taxpayer-financed coverage.

Baucus also proposes an individual mandate on Americans to buy coverage and on employers to either offer coverage or pay a fine. The senator should reconsider both mandates. There would be no need for an individual mandate if Congress were to enact a combination of positive tax incentives (such as tax credits) and methods to help facilitate take-up in private coverage (such as automatic enrollment). Likewise, the employer mandate is misguided: It would merely hide the real cost of coverage and be passed on to workers in the form of lower cash wages.

**More Discussion Needed.** The proposal thus has strengths and weaknesses and raises key questions that must be debated fully. Baucus should be commended for putting forward such a thorough document at the beginning of the debate instead of the common practice of trying to push through a chairman's proposal close to a vote. He now needs to foster a bipartisan conversation on how to build on the white paper's strengths, such as addressing the inequitable and inefficient tax treatment of health insurance, and how to deal with the paper's current weaknesses.

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1. U.S. Senator Max Baucus, "Call to Action: Health Care Reform 2009," November 12, 2008, at <http://finance.senate.gov/healthreform2009/finalwhitepaper.pdf> (November 14, 2008).
2. The Brookings Institution and The Heritage Foundation, "Taking Back Our Fiscal Future," April 2008, at [http://www.brookings.edu/~media/Files/rc/papers/2008/04\\_fiscal\\_future/04\\_fiscal\\_future.pdf](http://www.brookings.edu/~media/Files/rc/papers/2008/04_fiscal_future/04_fiscal_future.pdf).