

WebMemo



Published by The Heritage Foundation

No. 2448
May 15, 2009

A Principled Path to Rational Health Care Reform

Nina Owcharenko

Congress will soon unveil legislation to reform the health care system. The policies outlined by President Obama during his campaign and those being discussed in Congress would centralize control over the health care system in Washington.

The chief danger of this approach is that it would directly interfere in the personal health care decisions of Americans. There is a much better alternative: a system that recognizes diversity across the states and differences in individual health care needs and preferences.

A Consensus on the Problems. There is little disagreement that the current health care system needs an overhaul. Today, health care costs continue to rise while people have fewer choices and are less secure that the coverage they have today will be there tomorrow. The U.S. spends over \$2.4 trillion on health care (almost 17 percent of GDP), and the government accounts for almost one-half of all health care spending.¹

Premiums continue to rise in the private sector. Employer-based family coverage has increased from an average of \$6,438 in 2000 to \$12,680 in 2008.² The government health programs are not faring much better. According to recent CMS Actuary calculations, Medicare and Medicaid spent \$818 billion in 2008 and are projected to reach \$1.7 trillion by 2018.³

Americans are also facing fewer choices. Today, 85 percent of all employers offer only one health plan for their employees.⁴ Similar restrictions on personal choice face enrollees in government pro-

grams. In Medicaid, 23 percent are not accepting new Medicaid patients, and 18 percent are accepting only some.⁵ In Medicare, serious legislative efforts are underway that will likely chip away at seniors' access to the private plans they want in Medicare.⁶

Finally, Americans feel less secure about the future of their health care coverage. With the economic recession, Americans recognize they are one paycheck away from losing their health care coverage. Fifteen percent of Americans are without coverage. The uninsured are not a homogeneous group, but they tend to be disproportionately young, a member of a minority group, and working for small firms.

Most important, while the percentage of those without coverage remains constant, the individuals are not the same. As a matter of fact, 45 percent of uninsured are uninsured for less than four months; only 16 percent are uninsured for more than 18 months.⁷ This churning in the health insurance markets, and the lack of portability, is almost entirely the result of outdated government policies.

Two Competing Health Care Visions. There is also general agreement on the outcomes Americans are looking for in any health care reform proposal: affordability, accessibility, portability, and

This paper, in its entirety, can be found at:
www.heritage.org/Research/HealthCare/wm2448.cfm

Produced by the Center for Health Policy Studies

Published by The Heritage Foundation
214 Massachusetts Avenue, NE
Washington, DC 20002-4999
(202) 546-4400 • heritage.org

Nothing written here is to be construed as necessarily reflecting the views of The Heritage Foundation or as an attempt to aid or hinder the passage of any bill before Congress.

quality. But there is less agreement on policy path for reform.

On one side, there are those who believe that centralizing power in Washington is the best approach to achieve serious and long-lasting health care reform. Their policy prescriptions call for federalizing and heavily regulating health insurance. Proposals for a new public health plan and a federal health insurance exchange, as well as an individual mandate to purchase a government-approved package of benefits, clarify their intent: Washington control over health care financing and delivery.

The result, regardless of stated intentions to the contrary, is that the Congress would ultimately be in charge of health care decisions. It would result in a massive one-size-fits-all government system, and it would depend on flawed financing schemes, new mandates, and higher taxes to pay for it.

On the other side, there are those who believe that individuals and families should be the key decision-makers in health care and that they should control the flow of health care dollars in a reformed system. They are concerned that a centralized system of federal decision-making would:

- Diminish individuals' control over their personal health care decisions;
- Directly undermine state autonomy and authority in health policy, undercutting both innovation and experimentation to expand coverage and deliver quality care, especially for the poorest and most vulnerable of our citizens;

- Generate and perpetuate unsustainable federal spending; and
- Ultimately, in the face of serious budget crises, lead to government rationing of care and services.

Key Elements for a Workable Solution. Members of Congress serious about improving the health care system must find a way to bridge the gap between these two competing visions. There are three critical elements that could bring about a workable solution for lasting health care reform.

1. **Tax Equity.** The cornerstone of any serious health care reform proposal must address the tax treatment of health insurance. Today, individuals who purchase coverage through their place of work receive an unlimited tax break on the value of their health care benefits. However, those who purchase coverage on their own receive no comparable tax break.

There is broad bipartisan agreement, especially among health care economists and experts, that the current tax treatment of employer-based coverage is inequitable and regressive. Ideally, Congress should replace the current tax exclusion with a system of universal tax credits. Moreover, as a general principle, Congress should provide tax relief for those who purchase coverage on their own and redirect other health care spending to help low-income individuals and families purchase private health insurance coverage.

2. **State-Based Reform.** The health care challenges vary greatly across the country. Some states face high health care costs, while others face high

1. Andrea Sisko *et al.*, "Health Spending Projections Through 2018: Recession Effects Add Uncertainty to the Outlook," *Health Affairs*, March/April 2009, at <http://content.healthaffairs.org/cgi/reprint/28/2/w346> (May 14, 2009).
2. Kaiser Family Foundation and Health Research and Education Trust, *Employer Health Benefits 2008 Annual Survey*, September 24, 2008, p. 30, at <http://ehbs.kff.org/pdf/7790.pdf> (May 14, 2009).
3. *Ibid.*
4. Kaiser, p. 59.
5. Inter-university Consortium for Political and Social Research, "Community Tracking Study Physician Survey, 2004–2005: [United States]," August 2006, p. 38, at <http://www.icpsr.umich.edu/cocoon/ICPSR/STUDY/04584.xml> (May 13, 2009).
6. While the financing system for Medicare Advantage is flawed, some approaches to address these changes would have a negative impact on the highly popular plans. See Robert E. Moffit, "The Success of Medicare Advantage Plans: What Seniors Should Know," Heritage Foundation *Backgrounder* No. 2142, June 13, 2008, at <http://www.heritage.org/Research/HealthCare/bg2142.cfm>.
7. Congressional Budget Office, "How Many People Lack Health Insurance and For How Long," May 2003, p. viii (Figure 2) at <http://www.cbo.gov/ftpdocs/42xx/doc4210/05-12-Uninsured.pdf> (May 14, 2009).

rates of uninsurance. And, rural states face different challenges than urban states.

Instead of depending on a federal one-size-fits-all solution, Congress should embrace a federal-state partnership that would preserve diversity in the states. The states' role would be to devise the best ways to achieve common national goals—for example, to establish a mechanism for portability. This is in sharp contrast to other state-based approaches where the federal government sets explicit requirements and imposes on the states the onerous task of administering its federal reform. These types of partnerships are little more than a backdoor way to a one-size-fits-all federal plan.

3. *Sound Financing.* The U.S. spends over \$2.4 trillion on health care. Instead of spending an additional \$1.6 trillion on a plan financed by tax increases and unproven savings from Medicare

and Medicaid that may never materialize, Congress should restructure and redirect *existing* health care spending to make it more effective. To address long-term health care costs, Congress must focus on fundamental reform of the tax treatment of health insurance and entitlements. At the very least, Congress should require that savings be realized before appropriating them to any expansions.

Creating a Lasting Health Care Reform. Members of Congress have a choice: Either they can support efforts that expand Washington's control of the health care system, or they can allow the states to develop solutions that will transfer direct control of health care dollars and personal health care decisions back to individuals and families. The choice should not be that hard.

—Nina Owcharenko is Deputy Director of the Center for Health Policy Studies at The Heritage Foundation.