Backgrounder

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The Health Care Summit: A Chance to Start Over and Get It Right

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Abstract: *America's health care system is in need of change, but not change that consists of overhauling one-sixth of America's economy by centralizing health care decisions in Washington. The cornerstone provisions of the House and Senate bills, along with the President's recent recommendations, would put more power in the hands of bureaucrats and politicians. The legislative process thus far has been characterized by little transparency or bipartisanship. To be successful, the health care summit must begin by setting aside the highly unpopular House and Senate bills. Simply adjusting the magnitude of these proposals or adding new "conservative" provisions does not change their fundamental direction. Congress and the Administration should instead pursue bipartisan reform that gives Americans greater personal control of health care decisions.*

This week, President Barack Obama is inviting key Members of Congress from both parties to meet with him, ostensibly in search of a bipartisan agreement on health care reform.

A real bipartisan agreement should not be a public relations exercise to spread blame for political failure or a pretext to justify ramming a preordained partisan result through Congress. Real bipartisan outreach should have taken place at the very beginning of the Administration, emphasizing key elements of health reform upon which the President, moderates and conservatives in Congress, and others could have agreed.[1]

Talking Points

- To be a success, the health care summit must set aside the highly unpopular House and Senate bills, along with the President's recent recommendations. Simply adjusting the magnitude of these proposals or adding new "conservative" provisions does not change their fundamental direction.
- Most Americans want problems in the health care system fixed, but they do not want a federal takeover. The cornerstone provisions of these proposals would move the system toward one that consolidates power in Washington. Congress and the Administration should pursue bipartisan reform that gives Americans greater personal control of health care decisions.
- The President and Congress should change direction and focus on areas of incremental reform with bipartisan support: letting states take the lead rather than imposing a one-size-fits-all government solution; fixing the broken government health programs, not expanding them; creating tax fairness, not new tax inequities; and emphasizing targeted insurance reforms, not federal takeover.

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If the President is sincere and the summit is going to be successful, it must begin by setting aside the highly unpopular bills that the House and Senate have developed. Simply adjusting the magnitude of these proposals or adding new "conservative" provisions as suggested in the President's latest proposal, does not change their fundamental direction.

Congress should focus on very specific areas of common agreement: promoting state innovation, fixing entitlement programs, addressing the tax treatment of health insurance, and establishing fair rules for insurance.

As Yuval Levin has explained, the crucial differences between Congress and the nation at large are not differences in *degree*; they are differences in policy *direction*.[2] Most Americans want problems in the health insurance markets fixed, but they do not want a federal takeover of the health care sector of the economy. Regrettably, the cornerstone elements of these proposals would put more power in the hands of Washington bureaucrats and politicians.[3] Instead, Congress and the Administration should pursue bipartisan reforms that give Americans greater personal control of their health care decisions.

Changing Direction. Clearly, America's health care needs reform. Simply protecting the *status quo* ignores the real challenges facing the health care system. Congress therefore needs to pursue a fresh and more incremental approach to health care reform. This means taking specific steps that lead health care reform in a direction that is very different from that embodied in the unpopular House and Senate bills. It is a policy direction that would give individuals and families, not the government, more control of their health care decisions.

Specifically, Congress should focus on very specific areas of common agreement: promoting state innovation, fixing entitlement programs, addressing the tax treatment of health insurance, and establishing fair rules for insurance.

Real Bipartisanship: The Case for Restoring Public Trust

The simple truth is that the congressional legislation is not only unpopular, but also fails to meet the standards for health reform that the President himself established at the inception of the national debate.

The People Have Spoken. The American people have spoken. The health care reform proposals pending before Congress and endorsed by this Administration are unpopular, and most Americans feel that Congress should start over.

- 49 percent of the public oppose and 40 percent favor the Obama health care plan.[4]
- 61 percent of voters believe Congress should drop health care and focus on jobs and the economy.[5]
- 56 percent of Americans believe Congress should adopt a step-by-step approach.[6]

Rhetoric Versus Reality. There are many reasons why popular support for the health care bills has been dropping. One important reason is that the American people have looked beyond the rhetoric and clearly understand the consequences of the legislation itself.

1. Stuart M. Butler and Nina Owcharenko, "Ensuring Access to Affordable Health Insurance: A Memo to President-elect Obama," Heritage Foundation *Special Report* No. 27, December 3, 2009, at *http://www.heritage.org/Research/HealthCare/sr0027.cfm*.
2. Yuval Levin, "Which Way, Not How Far," National Review Online, February 8, 2010, at *http://corner.nationalreview.com/post/?q=MDY3ZjZjNDU1ZTcwNzRhNWFhN2JhZmFkYTI2MWY0OGQ*.
3. See Staffs of the Center for Health Policy Studies and Center for Data Analysis, "An Analysis of the Senate Democrats' Health Care Bill," Heritage Foundation *Backgrounder* No. 2353, December 18, 2009, at *http://www.heritage.org/Research/HealthCare/bg2353.cfm*; Staff of the Center for Health Policy Studies and the Center for Data Analysis, "A Closer Look at the House Democrats' Health Care Bill," Heritage Foundation *WebMemo* No. 2684, November 6, 2009, at *http://www.heritage.org/Research/HealthCare/wm2684.cfm*; and Robert E. Moffit, "A First Look at the President's Health Summit Proposal: Liberal Proposal Number Three," The Foundry, February 22, 2010, at *http://blog.heritage.org/2010/02/22/a-first-look-at-the-president%e2%80%99s-health-summit-proposal-liberal-proposal-number-three/*.

The reality is that the bills before Congress produce results that are far different from the promises upon which the President campaigned and that he continues to espouse. The contradictions between Presidential rhetoric and legislative reality are numerous.

- **Keeping Your Doctors and Your Health Plan.** In his State of the Union address, the President continued to reiterate that health care reform would "preserve the right of Americans who have insurance to keep their doctor and their plan."[7] But millions of Americans would see their health care coverage change under the House and Senate bills, including those workers whose employer drops health care coverage altogether.

  The Office of the Actuary at the Centers for Medicare and Medicaid Services estimates that 17 million fewer people would have employer-based coverage under the Senate bill and 12 million fewer people would have it under the House bill.[8] Moreover, the sweeping and complex federal regulation of health insurance embodied in both the House and Senate bills, like the establishment of an essential benefits package and cost-sharing limitations, puts the federal government in control of health care services and the delivery of care, guaranteeing that virtually every health plan will change over time.[9]

The bills before Congress produce results that are far different from the promises upon which the President campaigned and that he continues to espouse.

- **Imposing No New Taxes for Working-Class Americans.** In his State of the Union address, the President spoke about 95 percent of working families receiving a tax cut. The President also campaigned on the promise that he would never

4. This reflects the most recent poll on the topic. See "Obama, Health Care and the GOP," *Newsweek* Poll, February 19, 2010, at *http://www.newsweek.com/media/84/1001_ftop_v2.pdf* (February 21, 2010). For a comprehensive list of polls on the subject, see "Obama and Democrats' Health Care Plan," Real Clear Politics, at *http://www.realclearpolitics.com/epolls/other/obama_and_democrats_health_care_plan-1130.html#polls* (February 21, 2010). In addition, there is strong opposition to many of the cornerstone provisions in the bill. See Grace-Marie Turner, "Survey Finds Public Opposes Major Parts of ObamaCare," *Washington Examiner*, October 23, 2009, at *http://www.washingtonexaminer.com/opinion/columns/OpEd-Contributor/Survey-finds-public-opposes-major-parts-of-Obamacare-8425306-65610892.html* (February 21, 2010).
5. "61% Say It's Time for Congress to Drop Health Care," Rasmussen Reports, January 21, 2010, at *http://www.rasmussenreports.com/public_content/politics/current_events/healthcare/january_2010/61_say_it_s_time_for_congress_to_drop_health_care* (February 21, 2010).
6. Jeffrey Young, "Poll: Most Americans Think Congress Should Start Over on Healthcare," *The Hill*, February 16, 2010, at *http://thehill.com/blogs/blog-briefing-room/news/81185-most-americans-think-congress-should-start-over-on-health-poll-says* (February 21, 2010).
7. President Barack H. Obama, "Remarks by the President in the State of the Union Address," The White House, January 27, 2010, at *http://www.whitehouse.gov/the-press-office/remarks-president-state-union-address* (February 21, 2010).
8. Richard S. Foster, memoranda, "Estimated Financial Effects of the 'Patient Protection and Affordability Act of 2009' as Proposed by the Senate Majority Leader on November 18, 2009," U.S. Department of Health and Human Services, Centers for Medicare and Medicaid Services, Office of the Actuary, December 10, 2009, p. 7, at *http://src.senate.gov/files/OACTMemorandumonFinancialImpactofPPAA(HR3590)(12-10-09).pdf* (February 21, 2010), and "Estimated Financial Effects of the 'America's Affordable Health Choices Act of 2009' (H.R. 3962), as Passed by the House on November 7, 2009," U.S. Department of Health and Human Services, Centers for Medicare and Medicaid Services, Office of the Actuary, November 13, 2009, p. 8, at *http://republicans.waysandmeans.house.gov/UploadedFiles/OACT_Memorandum_on_Financial_Impact_of_H_R__3962__11-13-09_.pdf* (February 21, 2010). These results are similar to those estimated by the Lewin Group, a prominent econometric health care firm. See John Sheils and Randy Haught, "Comparing the Cost and Coverage Impacts of the House and Senate Leadership Health Reform Bills: Long Term Costs for Governments, Employers, Families and Providers," The Lewin Group, December 9, 2009, pp. 13–14, at *http://www.lewin.com/content/publications/Lewin_Senate_and_House_Bill_Compared.pdf* (February 21, 2010).

raise taxes on those earning less than $250,000. But the health care bills include numerous new taxes that apply regardless of income.

For example, both bills include an individual mandate that would penalize millions of Americans, likely young and healthy, for not buying government-approved coverage.[10] The bills also include various new taxes and fees on consumer products such as medical devices; pharmaceuticals; and insurance plans.[11] With regard to the "Cadillac" plan tax, J. D. Foster, tax economist at The Heritage Foundation, points out:

> Despite being a tax on high-end insurance plans, taxpayers with incomes of $200,000 or less annually will pay over 85 percent of the additional tax burden under the excise tax. Thus the tax would clearly violate President Obama's pledge not to raise taxes on families with incomes below $250,000.[12]

- **Reining in Health Care Costs and Reducing the Deficit.** The President continues to stress that health care reform is necessary to bend the health care cost curve and bring down premiums and the deficit. Regrettably, the bills before Congress do not meet that test. The Chief Actuary at the Center for Medicare and Medicaid Services has found that health care spending would actually *increase* by an estimated $289 billion under the House bill and an estimated $234 billion under the Senate bill between 2010 and 2019.[13]

  Moreover, the Lewin Group found that while some families would save, others would have to spend more. For example, families with at least one uninsured family member would face $1,225 in new health care spending under the Senate bill and $1,308 in new spending under the House bill.[14] In addition, younger families would pay an average of $287 more under the Senate bill and $376 more under the House bill, and families with low health care costs (less than $1,000 a year) would face $758 more in spending under the Senate bill and $811 more under the House bill.[15]

  Finally, while some estimates claim that the bills would reduce the deficit, the Lewin Group found that when taking the bills in their entirety, which means taking into account the expected billion-dollar boost in Medicare reimbursement

9. Edmund F. Haislmaier, "Micromanaging America's Health Insurance: The Impact of House and Senate Bills," Heritage Foundation *WebMemo* No. 2558, July 23, 2009, at *http://www.heritage.org/Research/HealthCare/wm2558.cfm*. See also Robert A. Book and Kathryn Nix, "Squeezing Out Private Health Plans," Heritage Foundation *WebMemo* No. 2774, January 22, 2010, at *http://www.heritage.org/Research/HealthCare/wm2774.cfm*.
10. Analysts at The Heritage Foundation estimated that roughly 93 percent of uninsured households under the age of 35 who face a penalty for remaining uninsured would rather pay the penalty than buy health insurance. See Rea S. Hederman and Paul L. Winfree, "How Health Care Reform Will Affect Young Adults," Heritage Foundation *Center for Data Analysis Report* No. 10-02, January 27, 2009, at *http://www.heritage.org/Research/HealthCare/cda1002.cfm*.
11. For a complete list of taxes in the House and Senate health care bills, see "Estimated Revenue Effects of the Revenue Provisions Contained in H.R. 3962, The 'Affordable Health Care for America Act,' Scheduled for Consideration in the House of Representatives," Joint Committee on Taxation, November 7, 2009, at *http://www.jct.gov/publications.html?func=startdown&id=3633* (February 21, 2010), and "Estimated Revenue Effects of the Manager's Amendment to the Revenue Provisions Contained in The 'Patient Protection and Affordable Care Act'," Joint Committee on Taxation, December 19, 2009, at *http://www.jct.gov/publications.html?func=startdown&id=3641* (February 21, 2010).
12. J. D. Foster, "Tax on High-End Health Insurance Policies Takes the Low Road," Heritage Foundation *WebMemo* No. 2667, October 29, 2009, at *http://www.heritage.org/Research/HealthCare/wm2667.cfm*.
13. Richard S. Foster, "Estimated Financial Effects of the 'Patient Protection and Affordability Act of 2009' as Proposed by the Senate Majority Leader on November 18, 2009," p. 14, and "Estimated Financial Effects of the 'America's Affordable Health Choices Act of 2009' (H.R. 3962), as Passed by the House on November 7, 2009," p. 12.
14. Sheils and Haught, "Comparing the Cost and Coverage Impacts of the House and Senate Leadership Health Reform Bills," p. 39.
15. *Ibid.*, p. 35.

for physicians, the bills would add to the deficit, not reduce it. When the Medicare physician payment increase is included, the House bill would add $77 billion to the deficit by 2019 and $591 billion by 2029, and the Senate bill would add $196 billion to the deficit by 2019 and $765 billion by 2029.[16]

- **Strengthening the Fiscal Health of Medicare.** The President claimed in his State of the Union address that the health care bill would "strengthen Medicare."[17] The Medicare program does indeed need strengthening.[18] With an estimated long-term liability of approximately $38 trillion, it faces a fiscal crisis of monumental proportions. But instead of focusing on restoring solvency to Medicare, the bills in Congress would take unproven savings from Medicare to pay for costly, trillion-dollar non-Medicare health care coverage initiatives.

Instead of focusing on restoring solvency to Medicare, the bills in Congress would take savings from Medicare to pay for costly, trillion-dollar non-Medicare health care coverage initiatives.

  In addition, the provision that would dramatically reduce Medicare payments to Medicare Advantage plans would jeopardize millions of seniors' existing coverage. The Chief Actuary of Medicare and Medicaid Services estimates that these Medicare Advantage changes would "result in less generous benefit packages" and that enrollment would decline by 64 percent under the House bill and 33 percent in the Senate bill.[19]

- **Improving the Economy and Creating Jobs.** While the President tries to pivot toward jobs and the economy, the pending health care proposals create a serious obstacle to achieving success in these areas. Both bills would impose an employer mandate, requiring employers to offer health insurance or pay a fine. Mandates would not only discourage growth in the economy, but also undermine job creation. According to Mark Wilson of Applied Economic Strategies, "The mandates will cost businesses at least $49 billion per year and put 5.2 million low-wage workers at risk of unemployment or reduced working hours."[20]

  Moreover, mandates and taxes on business would not only undermine job creation, but also discourage growth in the economy, as Heritage analysts point out.[21]

How to Pursue Real Bipartisan Reform

To regain the trust of the American people on health care reform, the President and Congress should abandon their highly unpopular proposals and focus instead on those areas where an incremental approach can lead to long-term improvements in the health care system. Specifically, this means concentrating on:

16. *Ibid.*, p. 25.
17. Obama, "State of the Union."
18. See Stuart M. Butler, "Senate Finance 'MedPAC' Health Proposal Needs Savings Guarantee," Heritage Foundation *WebMemo* No. 2507, June 26, 2009, at *http://www.heritage.org/Research/HealthCare/wm2507.cfm*.
19. Richard S. Foster, "Estimated Financial Effects of the 'Patient Protection and Affordability Act of 2009' as Proposed by the Senate Majority Leader on November 18, 2009," p. 10, and "Estimated Financial Effects of the 'America's Affordable Health Choices Act of 2009' (H.R. 3962), as Passed by the House on November 7, 2009," p. 9.
20. D. Mark Wilson, "Economics of Play-or-Pay Mandates in Health Care Reform Bills," Heritage Foundation *Backgrounder* No. 2312, August 28, 2009, at *http://www.heritage.org/Research/HealthCare/bg2312.cfm*. See also John Ligon, "The House-Passed Health Care Plan Revisited: Employer Mandate Penalties on Small Businesses," Heritage Foundation *WebMemo* No. 2312, January 11, 2010, at *http://www.heritage.org/Research/HealthCare/wm2753.cfm*.
21. Karen A. Campbell, "Current Health Insurance Reform Proposals vs. Real Reform and Economic Growth," Heritage Foundation *Backgrounder* No. 2321, September 23, 2009, at *http://www.heritage.org/Research/HealthCare/bg2321.cfm*. See also Karen A. Campbell, "High Income Surtax: How Not to Pay for Health Care," Heritage Foundation *WebMemo* No. 2707, November 20, 2009, at *http://www.heritage.org/Research/Taxes/wm2707.cfm*.

- **State-Based Partnerships, Not Centralized Planning.**

  Health care reform is needed. Too many people slip through the cracks. However, health care challenges vary greatly across the country. Some states face high health care costs, while others face high rates of uninsurance. And the challenges faced by rural states are different from those faced by urban states. It is difficult to imagine a federal solution that can address the unique challenges in each state effectively.

  Congress should embrace a federal–state partnership that would allow states to develop innovative ways to address their unique health care challenges.

  Although the current bills claim to promote state flexibility, the reality is that they would reduce governors and other elected state officials to mere administrators for federal dictates. They would take away significant state authority with regard to regulating insurance products and replace it with a massive, federal one-size-fits-all health care system.

  Instead of depending on a federal one-size-fits-all solution, Congress should embrace a federal–state partnership that would allow states to develop innovative ways to address their unique health care challenges. The federal government should set broad, national goals and then give wide leeway for states to try different approaches and learn from one another.[22]

  There are bipartisan proposals that are based on this vision, including bills introduced by Representatives Tom Price (R–GA) and Tammy Baldwin (D–WI); Senators George Voinovich (R–OH) and Jeff Bingaman (D–NM); and Senators Lindsay Graham (R–SC) and Russ Feingold (D–WI).[23] These proposals contrast sharply with other state-based approaches in which the federal government sets explicit requirements and imposes on the states the onerous task of administering its federal reform.

- **Fixing Broken Government Health Programs, Not Expanding Them.**

  Government at all levels, but mostly at the federal level, already controls almost half of all American health care spending. Reform should begin with Congress reforming the flawed programs it already controls rather than overhauling one-sixth of the national economy.

  Giant government-run programs like Medicare and Medicaid are fiscally unsustainable, leaving those who depend on them most vulnerable to inevitable reimbursement reductions. As noted, Medicare alone has an almost $38 trillion unfunded liability,[24] and the rapidly growing Medicaid program is displacing private coverage for low-income persons and squeezing other state budget priorities like education, transportation, and public safety.[25]

  Reform should begin with Congress reforming the flawed programs it already controls rather than imposing new, untested models for health care delivery on the rest of the health care system.

  In addition, these programs are too poorly designed to meet the health care needs of the

22. Stuart Butler and Henry Aaron, "A Bipartisan Push on Health Care," *The Washington Post*, May 13, 2007, at *http://www.washingtonpost.com/wp-dyn/content/article/2007/05/11/AR2007051101784.html*.
23. See Stuart M. Butler and Nina Owcharenko, "The Baldwin–Price Health Bill: Bipartisan Encouragement for State Action on the Uninsured," Heritage Foundation *WebMemo* No. 1190, August 7, 2006, at *http://www.heritage.org/Research/HealthCare/wm1190.cfm*, and Stuart M. Butler, "The Voinovich–Bingaman Bill: Letting States Take the Lead in Extending Health Insurance," Heritage Foundation *WebMemo* No. 1128, at *http://www.heritage.org/Research/HealthCare/wm1128.cfm*.
24. Greg D'Angelo and Robert E. Moffit, "Time to Get Serious (Again) About Medicare Reform," Heritage Foundation *WebMemo* No. 2441, May 13, 2009, at *http://www.heritage.org/Research/HealthCare/wm2441.cfm*.
25. "Fiscal Survey of States: Fall 2009" National Governors Association and National Association of State Budget Officers, December 2009, p. 1, at *http://www.nasbo.org/Publications/FiscalSurvey/tabid/65/Default.aspx* (February 21, 2010).

growing populations that depend on them. Because of traditional Medicare's large gaps in coverage, approximately nine out of 10 seniors today must rely on other sources of coverage—mostly private, employer-based, or other forms of supplemental coverage. Compared to private coverage, Medicaid delivers a poor quality of care. Medicaid enrollees have difficulty securing primary care doctors, largely because of Medicaid's routinely low administrative payment rates, and are more likely than even the uninsured to arrive in the emergency room for non-emergency services.[26]

Instead of fixing the structural problems of these government programs, the giant House and Senate bills would simply expand them. In fact, the House and Senate bills would add millions of the uninsured to the Medicaid rolls. Medicaid would become the single largest platform for expanding coverage. Both bills include a mandatory Medicaid expansion: 133 percent of the federal poverty level (FPL) in the Senate bill and 150 percent of FPL in the House bill.

In Senate negotiations, there was even consideration of opening the financially troubled Medicare program to certain individuals over 55 years of age. There are many problems with such a proposal: a future demand for generous subsidies, a further government-stimulated erosion of existing private coverage options, and the guaranteed exacerbation of Medicare's already enormous fiscal troubles.[27]

Congress needs to get serious about its own fiduciary responsibility for the government programs under its control. In principle, *any* savings in Medicare and Medicaid should go back into those programs and be used for reducing their costs or, in the case of Medicare, long-term unfunded liabilities, not to finance the expansion of a new government health program [28]

Beyond that, Congress needs to make broader structural changes that get these giant government entitlements under control and on a path toward reducing their obligations. For a start, Congress could take the President's proposal for competitive bidding in Medicare Advantage and broaden it to include traditional Medicare, making sure that all Medicare beneficiaries operate on a level playing field. Congress should also reverse provisions in the recently enacted economic stimulus bill that deliberately weaken the ability of governors and state legislators to manage their Medicaid programs more effectively. In addition, Congress should favor more state flexibility in Medicaid, not less.

- **Tax Fairness, Not More Inequity.**

  There is broad bipartisan agreement, especially among health care economists and policy experts, liberals and conservatives alike, that the current tax treatment of employer-based coverage is inequitable and regressive.[29] Today, individuals who purchase coverage through their place of work receive an *unlimited* tax break on the value of their health care benefits. However,

26. John S. O'Shea, "The Crisis in America's Emergency Rooms and What Can Be Done," Heritage Foundation *Backgrounder* No. 2092, December 28, 2007, p. 7, at *http://www.heritage.org/research/healthcare/bg2092.cfm*. See also Jeet Guram and John S. O'Shea, "How Washington Pushes Americans into Low-Quality Health Care," Heritage Foundation *Backgrounder* No. 2264, April 24, 2009, at *http://www.heritage.org/Research/HealthCare/bg2264.cfm*.
27. Nina Owcharenko, "The Reid Compromise Does Nothing to Improve a Very Bad Senate Health Bill," The Foundry, December 10, 2009, at *http://blog.heritage.org/2009/12/10/the-reid-compromise-does-nothing-to-improve-a-very-bad-senate-health-bill*.
28. Butler, "Senate Finance 'MEDPAC' Health Proposal Needs Savings Guarantee."
29. Consider, for example, Jason Furman, formerly of the Brookings Institution and one of President Barack Obama's top appointees at the National Economic Council. See Jason Furman, "Health Reform Through Tax Reform: A Primer," *Health Affairs*, May/June 2008, at *http://content.healthaffairs.org/cgi/reprint/27/3/622?maxtoshow=&hits=10&RESULTFORMAT=&fulltext=Jason+Furman+%2B+tax&searchid=1&FIRSTINDEX=0&resourcetype=HWCIT*. For a broader discussion of this issue among centrist and conservative health policy analysts, see Grace-Marie Arnett, ed., *Empowering Health Care Consumers Through Tax Reform* (Ann Arbor: University of Michigan Press, 1999).

those who purchase coverage on their own receive no comparable tax break, thus undercutting their access to affordable and portable health insurance. This flaw in existing tax policy affects millions of Americans and contributes to unnecessarily high rates of uninsurance.

There is a huge difference between adopting tax reform to change the structure and efficiency of the health insurance markets and simply increasing taxes to raise revenue to expand government health programs.

There is a huge difference between adopting tax reform to change the structure and efficiency of the health insurance markets and simply increasing taxes to raise revenue to expand government health programs. Congress, instead of reforming the federal tax treatment of health insurance, seems determined to raise taxes on the middle class. In the case of the Senate bill, the Senate would impose a new excise tax on insurance plans for selling "Cadillac" plans. The structure of the excise tax would create additional inequities, whether through exemptions or because of state differences.[30] Moreover, this hidden tax would ultimately be paid by workers, not insurers or employers.

Ideally, Congress should replace the current tax exclusion with a fairer and more equitable system of universal tax credits. Short of that, Congress should begin to realign the tax breaks for work-based health insurance with other tax-preferred forms of compensation by capping the tax exclusion. As explained by Stuart Butler, Vice President for Domestic and Economic Policy Studies at The Heritage Foundation, capping the exclusion is a fairer and more transparent way to help bring "efficiencies and cost reduction in the health care system over time."[31]

Concurrently, Congress should extend some 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. Both should be done in a way that is tax- and spending-neutral. Finally, instead of an employer mandate, Congress should give employers more choices by allowing them to contribute to their workers' individual health insurance policies without tax penalties on either workers or their employers.

- **Targeted Insurance Reforms, Not a Federal Takeover.**

  The current health insurance rules do not work for everyone, but the solution is not for the federal government to take over private health insurance, determining in excruciating detail the benefits that must be offered or the premiums that must be charged or paid. Congress can correct the gaps in the current system to make the market work better for those it serves without destroying the market for others.

  The proposals before Congress require a massive imposition of new federal rules and regulations, such as insurance price controls. They would subject all private health insurance, whether purchased from an insurance company by employer groups or individuals or provided through an employer or union self-insured plan, to detailed federal regulation. These "insurance reform" provisions amount to a *de facto* nationalization of health insurance, whether or not Congress creates a "public" plan. Instead of protecting patients, heavy regulation would stifle choice and competition in the health insurance market.

Instead of protecting patients, heavy regulation would stifle choice and competition in the health insurance market.

30. J. D. Foster, "Tax on High-End Health Insurance Policies Takes the Low Road."
31. Stuart M. Butler, "How to Design a Tax Cap in Health Care Reform," Heritage Foundation *WebMemo* No. 2517, July 1, 2009, at *http://www.heritage.org/Research/HealthCare/wm2517.cfm*.

There are several reasonable health insurance reforms that could be enacted to bring stability to the marketplace.[32]

First, Congress should simplify the basic rules for extending preexisting-condition protections for individuals with credible coverage.

Second, Congress should work with the states to balance providing security for those with credible coverage with mechanisms for insurers who end up with high-cost enrollees. In addition, individuals should be able to change insurers without losing protections. For those without credible coverage, Congress should work with the states to establish a path for these individuals to gain these protections on a conditional basis.

Finally, Congress should allow individuals who buy their own health insurance to purchase coverage from outside their states. This would both allow consumers to shop on a national basis for health insurance that best suits their needs and expand the coverage options available to them.

A New Way Forward

America's health care system is in need of change, but not change that consists of overhauling one-sixth of America's economy by centralizing health care decisions in Washington.

If the President and Congress are sincere and the health care summit is going to be a success, they must set aside these highly unpopular proposals and shift direction by taking an incremental approach to health care reform: one that puts health care reform on a path toward empowering individuals and families to control more of the financing and delivery of health care.

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32. See James C. Capretta and Thomas P. Miller, "The Insurance Fix," *National Review*, November 2, 2009, pp. 45–47, at *http://www.heartland.org/custom/semod_policybot/pdf/26249.pdf* (February 23, 2010).