

# WebMemo



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## Restarting Health Care Reform: A New Agenda

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Fulfilling their promise to voters, the U.S House of Representatives has already taken critical steps toward full repeal of Obamacare. But Congress cannot stop at repeal. Lawmakers should also set in place an alternative that will permanently fix the broken parts of the health care sector. Unlike Obamacare, Congress should pursue an approach to health care reform that preserves the doctor-patient relationship and cutting-edge innovation while controlling costs and expanding access to private health coverage.

In sharp contrast to a centralized, government-based structure, the alternative is based on a patient-centered, market-based model. This new vision for health care reform would focus on personal ownership. Unlike today's flawed third-party payment system, consumers would be in charge of their health care dollars and decisions. Health plans and providers would be directly accountable to patients—not a government official, a managed care executive, or an employer.<sup>1</sup>

**The Keys to Health Care Reform.** There are four key steps to moving toward patient-centered, market-based health care reform.

**Make tax policy fair and rational.** Today's federal tax treatment of health insurance is the major obstacle to a patient-centered, market-based model for health care reform. The current tax system provides individuals unlimited tax relief if they obtain coverage through a workplace, but it does not offer comparable tax relief to those who purchase coverage on their own. Furthermore, each time a worker leaves a job, he loses his job-based coverage. This

outdated policy undercuts portability and continuity of coverage, fuels health care inflation, and disproportionately benefits high-income workers who need assistance the least. It also lacks transparency by hiding the true value of the health benefit and the generous tax break from the worker, and the system is unable to adapt to changing workforce dynamics. Systematically, it perpetuates a third-party payment model that limits consumers' health care choices and decisions.

Congress should replace the current tax treatment of health insurance with a credit that is individually based. This means replacing the current open-ended tax break for work-based coverage with a broader and fairer tax system for individuals who purchase their own health care coverage. In addition, Congress should provide low-income, non-taxpaying workers with a comparable subsidy by redirecting existing health care spending.

As a first step, Congress should cap the open-ended work-based tax break. With those revenues, Congress could then begin to extend individual tax relief to those who purchase their own health insurance. These changes would begin to bring equity to our tax system and smooth the transition to a consumer-based health care system.

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**Start health care entitlement reform.** The Medicare and Medicaid programs accounted for close to \$800 billion in federal spending in 2010 and are expected to consume 10 percent of GDP by 2040.<sup>2</sup> These government health programs are fiscally unsustainable. Based on the government's central planning and price controls, these programs transfer enormous power into the hands of bureaucrats to control or limit enrollees' personal health care decisions and discourage market-based efficiencies.

In order to secure and sustain health care for these enrollees, Congress should move away from the defined-benefit model to a defined-contribution model. Under a defined-contribution model of financing, the government would provide direct assistance to those in need to purchase and maintain private health coverage of their choice.

As a first step, Congress could easily allow individuals facing retirement to keep their private health insurance into retirement and receive a defined contribution from the Medicare program. In Medicaid, Congress could give enrollees the option of receiving financial assistance from the Medicaid program for the purchase of private health insurance. These changes would give enrollees the option to secure and maintain private health insurance rather than depending on government-run health coverage.

**Promote choice and competition through insurance market reforms.** Today's health insurance markets are less competitive and increasingly dysfunctional, especially for those who have a change in coverage or move in and out of coverage. These churning effects result in patchwork health care coverage that fails to ensure continuity of care or portability of coverage.

In moving toward a more consumer-based system, insurance market reforms should focus on creating the right incentives to deliver better value to the consumer. Consumers should have greater choices, and plans and providers should be able to

offer coverage and services that meet the needs and demands of the consumer without excessive government interference. Moreover, insurance market reforms should help to stabilize health insurance, promote individual ownership, and facilitate greater portability of coverage.

Congress should focus on removing market barriers to interstate purchase of health insurance, addressing access issues for the hard-to-insure, and making pooling arrangements more effective. Congress could also build on existing law to improve opportunities for those who currently own their health insurance to switch plans without penalty or fear of losing their coverage. Today, health insurance regulations provide protections for those who move from employer-based coverage to individual coverage or from one employer plan to another. However, similar protections do not apply to individuals wishing to switch from one individual plan to another individual plan. Such a simple reform would promote stability, portability, and personal ownership.

**State-based reforms.** States play a critical role in health care reform. States regulate the small group and individual insurance markets, establish benefit requirements, and administer the Medicaid program. These core functions directly impact the availability and affordability of health insurance. Significant variations exist among the states, not only in geography and demographics, but also in how their health insurance markets and medical delivery systems are organized and financed. Therefore, federal health care reform should include a strong state component that provides additional federal flexibility so that states can better tailor reforms to fit the needs of their citizens.

States should get started right away. There is no need to wait for Washington. State policymakers should begin by assessing their own health insurance challenges related to insurance markets and their Medicaid programs. State lawmakers should

1. Edmund Haislmaier, "Health Care Reform: Design Principles for a Patient-Centered, Consumer-Based Market," Heritage Foundation *Backgrounder* No. 2128, April 23, 2008, at <http://www.heritage.org/Research/Reports/2008/04/Health-Care-Reform-Design-Principles-for-a-Patient-Centered-Consumer-Based-Market>.
2. Congressional Budget Office, *Historic Tables*, at <http://www.cbo.gov/ftpdocs/120xx/doc12039/HistoricalTables%5b1%5d.xls> (March 18, 2011), and The Heritage Foundation, *Budget Chart Book*, at <http://www.heritage.org/budgetchartbook/entitlements-consume-economy> (March 18, 2011).

look for ways to scale back costly regulations and mandates that drive up premiums and discourage healthy consumers from entering the market. On Medicaid, states should maximize existing authority to better engage enrollees in their health care decisions. At the same time, state policymakers should pursue innovative ways to advance a consumer-based marketplace at the state level. Good state experimentation can help to identify future federal changes necessary to achieve full reform.

**Setting a New Vision for Health Care Reform.** Americans want health care reform. They just do

not want the top-down, centralized bureaucracy enacted under Obamacare. Congress should continue its efforts to fully repeal Obamacare. Meanwhile, Members of Congress should also articulate a comprehensive and compelling vision for health care reform—a new vision rooted in a patient-centered, market-based system that enables Americans to take direct control and responsibility for their health care decisions.

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