

ISSUE BRIEF

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Saving the American Dream: A Blueprint for Putting Patients First

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The insurmountable problems with Obamacare are well documented. It is unworkable and moves the health care system further in the wrong direction, increasing costs to families and adding to the country's debt. It also empowers the government—not the individual patient—to control health care dollars and decisions. Over time, Americans will be more dependent on the government and government programs for their health care.

For those who believe in more freedom, less government, and lower health care costs, there is a better way. First, there is no “fixing” Obamacare; it must be fully repealed. The underlying law is so flawed that instead of trying to right its wrongs, it is better to just start over.

Once Obamacare is repealed, the next Congress must take transparent and thoughtful steps to help solve the

problems that remain in the health care system by putting power back in the hands of the American people. Congress should focus on the main obstacles that still stand in the way of reaching a true patient-centered, market-based model—by reforming Medicare, Medicaid, and the tax treatment of health insurance and enacting commonsense insurance reforms. Just as importantly, Congress should move such policy changes through the normal process so they can be fully debated and vetted—and, if necessary, on a piece-by-piece basis.

A Plan for the Future. The blueprint for such a vision is outlined in The Heritage Foundation's *Saving the American Dream* plan. This comprehensive fiscal plan to fix the debt, cut spending, and restore prosperity incorporates health care reform. These health reforms are based on the principles of individual choice and market competition, where individuals, not the government, are empowered to control health care dollars and decisions. These steps would set incentives to make the health care sector more accountable to the patient. To achieve these goals, Congress should focus on the following policies.

Repeal Obamacare. Obamacare is, at its core, incompatible with a patient-centered, market-based model for health care. It transfers massive power to Washington bureaucrats, reduces patient choice, and adds to the country's fiscal troubles. Therefore, the top policy priority should be fully repealing the law.

Return to the Basics. As noted, after repeal, Congress should turn its attention to confronting the major policy obstacles standing in the way of advancing a patient-centered, market-based system. The three basic policy challenges, as outlined in *Saving the American Dream*, are:

- **Reform Health Care Entitlements.** Medicare and Medicaid, the government health care programs for seniors and the poor, are costing taxpayers more and more while increasingly failing to meet the needs of those of who depend on them. Federal spending on these two programs will consume 6.8 percent of GDP within 10 years. In both Medicare and Medicaid, enrollees are finding it increasingly difficult to access the care they need. In Medicare, more than 90 percent of seniors are dependent on

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supplemental coverage to fill in the gaps left by that program. In Medicaid, limited access remains a consistent barrier for those in need. These programs, established in the 1960s, need structural reforms, not more tinkering.

In *Saving the American Dream*, these outdated and unsustainable programs are converted from open-ended, government-funded, defined-benefit programs to individual defined contributions, where individuals have greater control and taxpayer assistance is calibrated according to what is needed to assure reasonable coverage. In Medicare, seniors who need it would receive a generous government contribution toward a health care plan of their choice. If they choose a plan that costs less, they would keep the difference. If they choose a plan that costs more, they would pay the difference. In Medicaid, able-bodied individuals and families would receive a government contribution (premium support) to enable them to buy the same quality of private coverage enjoyed by the vast majority of working Americans. For those who are unable to work due to disability, the Medicaid program would remain a safety net. Federal spending on Medicaid would be put on a budget to ensure sustainability at the federal and state levels, and states would have additional flexibility to adopt more patient-centered models

for delivering better care to these most vulnerable in society.

■ **Restructure the Tax Treatment of Health Insurance.**

The way the tax code treats health insurance is also outdated and unsustainable. A remnant of World War II wage and price controls, the tax code provides unlimited tax relief for those who obtain their health insurance through their workplaces. But there is no comparable tax relief for those who obtain health insurance on their own. This unfair tax policy not only encourages wasteful spending and shifts control from workers to employers, but it also fails to reflect a changing and mobile workforce. Long gone are the days when a worker took at job at 18 and stayed with the same company until retirement.

In *Saving the American Dream*, the tax break only for those with employer-sponsored coverage would be converted to individual tax credits—available to individuals regardless of where they work. Like the premium support models outlined in Medicare and Medicaid, individuals would be able to apply the credit to a health plan of their choice, including an employer-sponsored plan if they so choose. In the end, this change in the tax code would allow individuals to own and control their health care, realigning the incentives so that insurers

and providers are accountable to patients, not to employers or government bureaucrats.

■ **Refine Insurance Market Regulations.**

Since the current health insurance market for individuals is small (and temporary for many), it is no wonder that the marketplace for individual-based health insurance is not optimal. Throughout a lifetime, individuals can churn through the maze of government programs, employer-based coverage, the individual market, and even bouts of no insurance. Therefore, some judicious insurance market reforms need to accompany the financial changes to achieve a truly patient-centered model.

While *Saving the American Dream* focuses on the fiscal side of health reform, there are several important insurance market reforms that should complement and enhance the fiscal changes. First, individuals who maintain continuous coverage should receive the same protections as those in the group market so that they can change coverage when needed without facing new exclusions or penalties. Second, for those without credible continuous coverage, there should be an alternative path toward earning similar protections over time once they obtain coverage. In addition, insurer-funded risk adjustment or risk-pooling arrangements can

1. Stuart M. Butler, Alison Acosta Fraser, and William W. Beach, eds., *Saving the American Dream: The Heritage Plan to Fix the Debt, Cut Spending, and Restore Prosperity*, The Heritage Foundation, 2011, at <http://savingthedream.org/about-the-plan/plan-details/>.

2. Robert E. Moffit, "The Second Stage of Medicare Reform: Moving to a Premium Support Program," Heritage Foundation *Backgrounder* No. 2626, November 28, 2011, at <http://www.heritage.org/research/reports/2011/11/the-second-stage-of-medicare-reform-moving-to-a-premium-support-program>.

3. Nina Owcharenko, "Medicaid Reform: More than a Block Grant Is Needed," Heritage Foundation *Issue Brief* No. 3590, May 4, 2012, at <http://www.heritage.org/research/reports/2012/05/three-steps-to-medicare-reform>.

provide an additional backstop for the hard-to-insure cases. Finally, changing regulations to allow new, individually based pooling arrangements and cross-state purchase of health insurance would further enhance the marketplace for individuals.

Better Care For All—At a Lower Cost. Congress should not try to save Obamacare; it should repeal it. From there, Congress should not ignore the challenges in

health care, but instead get back to the basics and pursue policy changes that give control of dollars and decisions to patients, not the government. By focusing on health care entitlements, the tax treatment of health insurance, and commonsense insurance market reforms, Congress would ensure that Americans benefit from better care at a lower cost.

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