



## **KERRY vs. BUSH**

*The Future of Health Care  
Reform?*



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# SENATOR KERRY'S PROPOSALS

**Expanding Coverage.** Provide individuals between jobs a 75% tax credit for health insurance. Provide a refundable tax credit for up to 50% of coverage to small businesses and their employees to help subsidize the cost of health insurance (if they buy into the Federal Employees Health Benefits Program [FEHBP] pool, which covers some 8 million federal workers and retirees). Provide individuals “assistance with costs above 6% of their income.”

In addition, to hold down insurance premiums the federal government would reimburse companies and insurers for 75% of catastrophic claims totaling more than \$50,000, provided they pass the savings (up to \$1,000 for each worker) on to their policyholders.

*Discussion.* Buying into the FEHBP is not an unreasonable idea, but only for individuals or small companies that have no other options — in other words, as a safety net. However, there are already more than 30 state-based high-risk pools that provide safety-net coverage for those who cannot buy a policy because of a pre-existing medical condition. And proposed federal legislation would expand funding for those programs, making them more accessible. Expanding those state-based programs would build on a current, working system.

Sen. Kerry's proposal to use the government as the backup insurer for business may sound appealing, but it would cause numerous problems. The increasingly mobile workforce is straining the employer-provided health insurance model; and the market is looking for an alternative to it. By tying the government subsidy to the coverage, Sen. Kerry's plan would make it almost impossible for a transition to happen. Moreover, once the government opened its checkbook, it would begin controlling the coverage.

In addition, the proposal could lead to additional and substantial unfunded liabilities. Medicare and Social Security already face significant future unfunded liabilities. Do we really want to add to those unfunded liabilities?

**Encourage Disease Management Programs.** Work closely with patients with chronic diseases such as diabetes, cancer, asthma and cardiovascular disease to ensure they are getting the right medications and taking them appropriately.

*Discussion.* Disease management programs are promising and may be effective in improving the quality of care for patients with chronic medical conditions while controlling costs. But many states have already adopted disease management programs and an additional federal program will likely not lead to widespread savings.

**Cut Administrative Costs in Half.** The hope is that new technologies will reduce paperwork and reduce costs.

*Discussion.* HIPAA already requires administrative simplification. However, implementation has been slow because the upfront costs are considerable and real savings aren't realized until many years later.

**Price Controls.** Impose price controls on prescription drugs and allow individuals to import them from other countries.

*Discussion.* Few serious economists or politicians defend price controls — except when it comes to health care, especially prescription drugs. That's because price controls reduce access and quality. They are simply a top-down effort to control costs and ultimately utilization. A much more effective way to control costs is to give patients more control over their health care dollars and let them benefit from being value-conscious consumers.

**Expand Government Coverage.** Sen. Kerry is proposing a “swap deal,” with the federal government picking up the full cost (which is currently split between the federal and state governments) of covering nearly 20 million children enrolled in Medicaid in exchange for states covering more children (up to 300% of the federal poverty level) and working parents (up to 200% of FPL) in the Children's Health Insurance Program (CHIP). Eventually the states would also have to expand coverage to single adults and childless couples at or below the poverty level.

*Discussion.* The goal appears to be to increase the number of people in government-provided care and, with his plan for employers, increase the government's hand in private sector coverage. The primary problem is that states have been awash in red ink and do not want to take on more of the financial burden. While the federal government will promise to provide some of the funds, the states know those funds get cut in tight federal budget times — leaving states holding the bag. Just look at state Medicaid programs! A better solution would be to help low-income populations access private coverage, perhaps by providing them with a tax credit.

**Malpractice Reform.** Hold down malpractice premiums by requiring an impartial review of a claim before an individual could file suit and by eliminating punitive damages except in proved egregious cases. No cap on legitimate damage awards would be imposed. States would be required to make available nonbinding mediation in all cases before proceeding to trial on any claim.

*Discussion.* The “no cap” provision says it all.

# PRESIDENT BUSH'S PROPOSALS

**Health Savings Accounts.** Mr. Bush wants to expand on the recently enacted Health Savings Account (HSA) legislation — tax-free personal accounts that are used for small health care expenditures and must be combined with high-deductible health insurance coverage — by allowing people to get a full tax deduction when purchasing a qualifying health insurance policy. He would also allow workers with Flexible Spending Accounts (FSAs) to rollover up to \$500 in unused funds at year's end rather than lose it, as current law requires (making them, in effect, more like a limited HSA).

*Discussion.* By his successful efforts to pass Health Savings Accounts as part of the Medicare bill, President Bush has opened the door for the expansion of consumer-driven health care. It's hard to know for sure at this point, but HSAs may be the most important health insurance reform in decades. Any companion legislation — such as the tax deductibility of the high-deductible policy mentioned above — will only encourage more workers to choose HSA plans, thereby increasing the number of people with health insurance.

**Tax Credits for the Uninsured.** Provide refundable tax credits — \$1,000 per adult and \$500 per child, with a total tax credit not to exceed \$3,000 annually — for up to 90% of the cost of health insurance to individuals with incomes of \$30,000 or less and families with incomes of \$60,000 or less.

*Discussion.* The tax credit for workers who do not have access to employer-provided coverage is a sensible way to make health insurance more affordable and reduce the number of uninsured without creating new or expanding existing government-run health care programs. It would disproportionately help uninsured, low-income workers and minorities, since they are more likely to work for employers who do not provide health insurance.

In addition, it is the most affordable way to expand coverage — about \$10 billion a year under the Bush plan. The key to making the tax credit work is to ensure that people have access to affordable policies (see below).

Perhaps most important is the issue of fairness. Workers who have employer-provided coverage get a tax break for whatever the employer spends on insurance — it is not considered income. Those who work for employers who do not provide coverage get no tax break. A tax credit would level that playing field so that everyone — those with employer-provided coverage, the self-employed and workers without access to employer coverage — would get a tax break for health insurance.

**Association Health Plans.** The legislation would put insurance sold through associations under federal oversight. As a result, states would not be allowed to control the policies or the practices of the associations or mandate who and what insurance covers. However, states would monitor financial solvency and enforce consumer protections for insurers selling through associations, but not self-insured associations.

*Discussion.* The legislation has been around for several sessions and has little chance of passing in its current form. The most controversial provision would let associations self-insure, just as large companies do under the Employee Retirement Income Security Act (ERISA). That means that associations would become their own insurers, paying health claims themselves rather than using an insurer. The concern is that if several workers in the association became seriously ill, running up very high claims, the association could deplete its reserves and be unable to pay workers' claims. While the idea of letting association members buy health insurance is sound — indeed, millions of Americans already get insurance through state-supervised associations — the AHP legislation raises some important issues that must be addressed.

**Expanded Government Programs.** Extend expiring and unused SCHIP (a children's program) funds in order to cover more children. Increase funding for community health programs. Provide block grants for the Medicaid program. Extend Medicaid's Transitional Medical Assistance Program.

*Discussion.* The administration has made it clear that it would like states to find ways to move people from Medicaid and other government programs into private health insurance. However, little has happened so far except the expansion of government programs.

**Malpractice Reform.** Cap non-economic damage recovery to \$250,000. Reserve punitive damages for justified cases and limit punitive damages to reasonable amounts. Provide for judgment payments over time rather than as a lump sum. Ensure statute of limitations on cases. Reduce payment amounts if plaintiff received compensation from other sources for the same injury.

*Discussion.* Capping the non-economic damages is the only serious way to get control of frivolous lawsuits and lower the cost and increase the availability of malpractice insurance. California has had such legislation in place for 30 years, and it is well known that trial lawyers seeking to file frivolous lawsuits or game the system must look to other states to file their lawsuits.

## ANALYSIS AND CONCLUSIONS

Unlike Bill Clinton, who as a presidential candidate inspired a national debate with his sweeping health care reform plan, Sen. Kerry has proposed some measured changes intended to encourage employers to continue — or begin to offer — health coverage. Even so, the Kerry proposals would exacerbate the problems of the current system by redirecting it from its transition into a consumer-driven system to a government-driven system.

President Bush also supports relatively modest reforms, perhaps because two of his previous campaign promises — a prescription drug benefit for seniors on Medicare and Health Savings Accounts — have already become law.

**Private Sector, Public Sector or Both?** President Bush — whose plan is estimated to cost about \$90 billion over 10 years — supports reforms that would energize the private health care system, lead to more people having access to affordable health insurance and reduce the number of uninsured. But some of his other proposals would expand government programs, which already account for about 50 cents of every health care dollar spent in the U.S. — and that's before the new Medicare drug benefit goes into effect in 2006.

Sen. Kerry's proposal — estimated at \$653 billion over 10 years (down from an original estimate of more than \$900 billion), which he says he can pay for by rolling back the Bush tax cuts for those making more than \$200,000 a year — would, generally speaking, take the opposite approach. Part of his plan would expand heavily regulated private, employer-provided coverage under the FEHBP, and it would also open the door to even more government involvement in the health care system. More importantly, he supports eliminating the recently passed Health Savings Accounts, imposing price controls on prescription drugs, importing drugs from other countries and expanding the new Medicare legislation, making it even *more* expensive that it already is — and it's already projected to cost more than half a trillion dollars over 10 years.

To be sure, both candidates include other components to their plans. But Mr. Bush's past success in passing HSAs and his current support for tax credits and tort reform make his plan by far the better of the two.



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