



**KERRY vs. BUSH**  
*The Future of Health Care  
Reform?*



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# SENATOR KERRY'S PROPOSALS

**Expanding Coverage.** Provide individuals with incomes 300% below the federal poverty level (FPL) and between jobs a 75% tax credit for health insurance. Provide a 25% tax credit for seniors ages 55 to 64 with incomes 300% below the FPL. 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 pool). Provide a tax credit for workers not eligible for other Kerry provisions (tax credit limits premiums to less than 6% of income for workers below poverty, phasing out to 12% of income for workers at 300% of poverty).

In addition, to hold down insurance premiums the federal government would reimburse companies and insurers for 75% of catastrophic claims, 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. While the FEHBP should not become America's first health insurance option, it might work as a fallback plan for people who cannot otherwise find affordable coverage.

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. Indeed, once the government opened its checkbook, it would begin controlling the coverage. You think managed care rationed health care; wait until Washington tries to balance the budget on the back of your health.

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 well prove to be effective in improving the quality of care for patients with chronic medical conditions while holding costs. But many states have already adopted disease management programs and would likely not lead to wide-spread savings.

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

*Discussion.* HIPAA already requires administrative simplification. Although simplification is needed, the problem is the up-front costs are considerable and real savings aren't realized until the out years.

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

*Discussion.* Few economists — and relatively few politicians — defend price controls because they are simply a top-down effort to control costs and utilization, which eventually reduce access and quality. Importing drugs from other countries imports their price controls through the back door. A much more effective way to control costs is to give patients more control over their health care dollars, encouraging them to be 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 FPL.

*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 would promise to provide some of the funds, the states know those funds get cut in tight federal budget times — leaving them holding the bag. Just look at state Medicaid programs!

**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. 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

**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 \$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.

The key to making the tax credit work is to ensure that people have access to affordable policies (see below).

Perhaps most importantly 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.

**Expanding 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, above-the-line tax deduction for the cost of a qualifying health insurance policy. In addition, families receiving the \$3,000 tax credit discussed above could apply \$2,000 (\$700 for individuals) to purchase health insurance and deposit the remaining \$1,000 (\$300 for individuals) into an HSA. Small business owners would receive a \$500 refundable tax credit for the first \$500 they contribute to a worker's family HSA (\$200 for a worker's individual 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. Insurers and employers are increasingly turning to consumer-driven options as a way to reduce health care utilization and cost, while increasing consumer satisfaction. Mr. Bush's proposals would speed up the current trend and fundamentally reshape the health care system.

**Creating a National Health Insurance Marketplace.** In today's marketplace, it is easy to search for and purchase items over the Internet. But there are different rules for health insurance — such products have to be bought in the state in which a consumer resides. Mr. Bush proposes giving people the freedom to shop across state lines to find the best rates for their health insurance needs.

*Discussion:* Millions of Americans are stuck in states whose mandates and regulations have made health insurance unaffordable or unavailable — and, as a result, driven up the number of uninsured. Those Americans want access to affordable coverage. If states refuse to remove the regulations so that people have access to affordable policies, then they should have the right to buy health insurance in states that have.

**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.

*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 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 an association — the AHP legislation raises some important issues that must be addressed.

**Expanded Government Programs.** Mr. Bush has already granted waivers and more flexibility to the SCHIP program. He proposes a Cover the Kids Campaign, partnering with federal, state and community-based organizations with a goal to cover all SCHIP eligible children within two years. In addition, he proposes expanding community and rural health centers to every poor county in America.

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

**Malpractice Reform** Proposes “common sense” liability reforms that would speed up recovery of damages to patients, fairly compensate those who have been injured, and increase access to care. These reforms would help prevent skyrocketing medical liability premiums.

*Discussion.* Capping the non-economic damages — which the Bush administration has long supported — 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 have to look elsewhere.

## 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-directed system to a government-directed 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 (HSA) — have already become law. But his modest reforms could eventually have a big impact by changing the current incentives to overuse health services.

**Private Sector, Public Sector, or Both?** The Bush administration estimates its plan to cost about \$90 billion over 10 years. Joe Antos of the American Enterprise Institute (AEI) estimates it would cost \$129 billion and cover 6.7 million uninsured. On balance, the Bush plan 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 \$650 billion over 10 years by health economist Kenneth Thorpe, but \$1.5 trillion by AEI, and covering 27.3 million uninsured — would, generally speaking, take the opposite approach. Part of his plan would expand private, employer-provided coverage, but it would also open the door to heavy government involvement. 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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