

Council for
Affordable Health
Insurance

OBAMA VS. MCCAIN
Competing Health Care Visions

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Since August 2007, the Council for Affordable Health Insurance has closely tracked and chronicled the health care reform proposals of every presidential candidate. In this document, we provide a summary of both Senator Barack Obama's and Senator John McCain's plans, along with analysis and discussion of several elements in them.

One thing is clear from that continuous tracking: the Democratic and Republican presidential candidates fundamentally differ on their vision for health care reform. Sen. Barack Obama believes the market does not (and perhaps cannot) work well in health care, and so a strong government hand is needed to force the system to work for everyone. Sen. John McCain believes the market can work in health care if given the chance, and proposes reducing or relaxing some of the current regulatory framework to increase competition and choice.

BARACK OBAMA

EXPANDING COVERAGE: Obama's reform plan for covering most or all of the 47 million uninsured Americans depends, he says, on making health insurance more affordable. So he proposes to:

- Swell government programs such as Medicaid, Medicare and the State Children's Health Insurance Program (SCHIP), probably by expanding the eligibility criteria so that more people — including families with incomes up to 400 percent of the federal poverty level (\$84,800 a year for a family of four in 2008) — qualify for such programs.
- Provide subsidies for low-income people to help them buy coverage, which he estimates will cost the government more than \$100 billion.
- Provide small businesses with a tax credit for up to 50 percent of the premiums they spend on health insurance at a cost of \$6 billion.
- Reimburse employers for a portion of their catastrophic health care expenses — in essence, acting as a reinsurer — if the employer ensures that the savings go toward lowering employees' premiums.
- “Bring down premiums by \$2,500 for the typical family” by the end of his first term by computerizing medical records (\$77 billion), reducing administrative costs (\$46 billion), and improving prevention and chronic disease programs (\$81 billion).

And in order to make the traditional insurance market work better, he intends to:

- Create a National Health Insurance Exchange (similar to the Massachusetts health insurance “Connector”) so consumers can shop among private plans.
- Create a public program, as one choice among several private sector options, complete with comprehensive benefits similar to the health plan offered to federal employees, subsidies and portability (i.e., a person can take it with them when leaving a job).
- Require employers to share the cost of insuring workers or pay into a national plan (known as “pay or play”). The smallest businesses will be exempt from this employer mandate.
- Only require children — not adults — to have coverage (known as an “individual mandate”). But he has also said that if addressing affordability fails to dramatically reduce the number of uninsured, he will consider an individual mandate.

Discussion: Expanding government programs will likely lower the number of uninsured, but Obama must address the exploding cost of those programs. Both Medicare and Medicaid are currently financially unsustainable, and more and more doctors are refusing to treat new (or any) of those patients. Just putting more people in government-run programs and lowering reimbursement rates will only exacerbate current problems. In addition, he must address how he will resolve the problem that perhaps a quarter of the uninsured are currently eligible for a public program but choose not to enroll.

Subsidizing lower-income workers, either through the tax system or through income transfers, will also likely reduce the number of uninsured — depending on the size of the subsidy. And requiring employers to pay for part of their employees' policies could increase coverage. But the cost would be a burden for many employers, which is why such proposals often exempt the smallest employers and why Obama plans to subsidize small employers with a tax credit. Having the government pick up the tab for catastrophic health care costs could lower employers' premiums, but that approach just shifts the costs — and some of the power to design benefits — to the federal government, where taxpayers have to foot the bill.

As far as trying to create health insurance exchanges, similar ideas have been tried many times but never made much difference. And while the Massachusetts Connector may prove effective, the jury is still out.

Obama's most novel proposal is to create a federal employee-style plan, which would likely be a benefits-rich package — both Obama and most Democrats discourage less-costly consumer driven options like Health Savings Accounts (HSAs) and high-deductible policies — that would cost the government (i.e., taxpayers) a lot of money. Of course, he has conceded that his plan will cost an estimated \$50 billion to \$65 billion per year, paid for by letting Bush's tax cuts expire on those making more than \$250,000 per year.

But can Obama's plan save consumers the kind of money he has suggested? Count us as skeptics. While most health economists agree there is waste in the system — perhaps as much as 30 percent — the question is where is it and how to remove it? Does anyone really think the government will significantly reduce administrative waste? Reducing “costs” isn't the same as reducing “spending”; the government reduces costs by imposing price controls but has had little success with reducing total spending. What Barack Obama's plan currently lacks is a way to encourage people to be value-conscious shoppers in the health care marketplace.

IMPROVING ACCESS: Obama wants to address the problem of the “uninsurables” — those who have been denied coverage due to a preexisting medical condition — by prohibiting health insurers from denying coverage (i.e., “guaranteed issue”).

Discussion: The vast majority of Americans with health insurance get it either through an employer (about 160 million) or the government. In neither case can a person be denied coverage because of a preexisting condition. Thus the guaranteed issue mandate would apply solely to the “individual” (i.e., non-group) market, where about 18 million Americans buy their own coverage, just like people buy life insurance.

Six states have already implemented guaranteed issue in the individual market, and they have the highest health insurance premiums in the country. That's because when people know they can get health insurance at any time, regardless of their medical condition, they tend to wait until they need medical care to get coverage. The young and healthy especially tend to stay out, leaving only the sickest people in the pool — hence the call by some, including Sen. Hillary Clinton, for mandating everyone have coverage.

PERMITTING FLEXIBILITY: Obama has said that if individuals like their current coverage they can keep it. In addition, he says he will allow states to continue implementing their own health care reform initiatives.

Discussion: The promise of letting people keep their coverage is important, but may be misleading. Obama wants to impose significant new requirements and regulations on health insurance. As a result, insurers may decide they can no longer offer certain types of coverage, including high deductibles, Health Savings Accounts and certain types of limited-benefit policies. However, giving the states some flexibility to experiment with various approaches could be very helpful — as well as cause problems.

IMPOSING PRICE CONTROLS: Barack Obama supports legislation allowing the importation of prescription drugs from other countries and allowing the federal government to “negotiate” drug prices, both of which are an indirect form of price controls. In addition, Massachusetts officials have openly discussed imposing price controls on health insurance being sold in the Connector — even adopting Medicaid's reimbursement structure — as a way to hold their program's exploding costs.

Discussion: Few economists — and relatively few politicians — openly defend price controls because they have been so thoroughly discredited over the past three decades. But in tight economic times, the public sometimes clamors for politicians *to do something*, which opens the door for price-control legislation.

IMPLEMENTING MALPRACTICE REFORM: Obama proposes to reduce the need for malpractice suits by promoting “new models” for addressing physician errors that improve patient safety.

Discussion: It isn't clear what these “new models” are, but states that have passed significant malpractice reform legislation, such as Texas, have had a dramatic positive impact on the cost of and access to malpractice insurance. And that improvement will have an impact on both the availability and cost of medical care.

MISCELLANEOUS REFORMS: Both candidates have made brief references of their support for addressing chronic disease issues, promoting wellness and prevention programs and encouraging the increased reliance on health information technology. However, there have been few specifics.

Discussion: Most of the high costs of health care come from a relatively small number of people, mostly with chronic diseases. Effective chronic disease management programs, along with wellness and prevention programs, may reduce those costs, but it's unclear by how much. In addition, there are widespread calls for increased use of technology in health care. That includes electronic prescribing (e-prescribing) and switching to a system of electronic medical records. But while both changes could be helpful — and the medical community is already transitioning to them — they are unlikely to dramatically improve the quality of care or be a cost-saving panacea.

JOHN MCCAIN

EXPANDING COVERAGE: John McCain’s boldest proposal is to restructure the tax treatment of health insurance. Under McCain’s plan, single workers would get a \$2,500 refundable tax credit (not a deduction), and families would get a \$5,000 credit. A tax credit comes directly off what a person owes on taxes. So a family with an income tax obligation of \$10,000 would only pay \$5,000 to the government and use the other \$5,000 (which would have gone to the government) to buy health insurance. Since the tax credit is “refundable,” a person would still get the money, even if he owed no income taxes (making it, in essence, a transfer payment). In addition:

- McCain has indicated that the tax credit may be “risk rated” (i.e., be larger for those with serious medical conditions to offset the additional health insurance costs).
- In contrast to Obama, McCain believes that government-run programs like SCHIP should be limited to low-income families. He also says he wants to slow the growth of Medicare and Medicaid through comprehensive reforms.
- Like Obama, McCain wants to give states the flexibility to experiment with reform, but that flexibility would likely have a stronger free market component.
- But unlike Obama, McCain likes Health Savings Accounts, Health Reimbursement Arrangements (HRAs), and other consumer driven health insurance options.

Discussion: McCain sees a fundamental unfairness in the current health care system: the unequal distribution of the tax break for health insurance. Many health economists agree. Employees with employer-provided coverage get a “tax exclusion” for whatever the employer spends (that is, the money is not considered income to the employees, and therefore it is “excluded” from taxable income). The self-employed get a 100 percent tax deduction. But employees without access to an employer-provided policy get no tax break. McCain’s plan decouples the tax break for health insurance from the workplace. And the tax credit would make health insurance more affordable for millions of mostly lower-income uninsured Americans by defraying most of the cost of coverage.

However, it doesn’t necessarily follow, as some suggest, that most employers would quit offering health insurance. Most likely would continue if they thought it helped them attract better workers. Plus they could continue to deduct the cost of coverage as a business expense as they do now.

By redistributing the current tax subsidy, McCain’s proposal would likely be “budget neutral” (i.e., not cost additional federal money). From an individual standpoint, most families would likely be better off than under the current system, but some families would be worse off because their unlimited tax break would decline. The Cato Institute recently estimated that about half the uninsured would get coverage under the McCain plan. However, prospects for such a sweeping change are low, which may force McCain to support a more limited tax break only targeting those workers who don’t currently get one.

Another major philosophical difference is that McCain wants the health insurance market to innovate, creating new and different health insurance options that people want at a price they can afford. If the government develops those options, there will be few choices and they will likely be much more expensive. By relaxing regulations and giving people more options, McCain expects competition will drive prices down and quality up — just as it does in other sectors of the economy.

IMPROVING ACCESS: McCain proposes a safety-net program called the Guaranteed Access Plan, or GAP, to meet the needs of the uninsurables. While there aren’t many details yet, it appears that GAP would work similarly to the 34 currently operating, state-created high risk pools, which provide health coverage to some 200,000 uninsurable Americans.

Discussion: Some of the state high risk pools work very well, others don’t. So depending on the details — it isn’t clear whether GAP would be a national high risk pool or just a model for the states — it could provide a very effective safety net. In essence, McCain’s proposal concedes that markets work, but may not work for some. In such cases, it is appropriate to provide a safety net.

CREATING A NATIONAL HEALTH INSURANCE MARKET: McCain supports allowing individuals (i.e., not those in the group market) to buy health insurance that is already approved and being sold to people in other states. In addition, McCain has long supported “association health plans,” which would allow associations and other organizations to offer self-insured health coverage.

Discussion: The cost of an insurance policy for an individual often depends on the state where a person lives — because of various mandates and regulations imposed on the insurance coverage. Allowing people to buy a health insurance policy that is approved and being sold in another state simply treats health insurance like we do almost every other product and

service. Whether the legislation passes or not, it highlights the fact that some states have imposed so many regulations that individual health insurance policies are very expensive and consumers have very few options.

INCREASING TRANSPARENCY: McCain is calling for increased transparency in the health care system, which means greater access to price and quality information — though how he would do that remains unclear.

Discussion: In a consumer driven health care system, patients will need and demand greater access to information. Indeed, new efforts to provide that information are already appearing.

IMPOSING PRICE CONTROLS: McCain supports the importation of prescription drugs from other countries, which “imports” their price controls.

Discussion: The World Health Organization (WHO) is increasingly alarmed at the growing number of counterfeit drugs that are finding their way into the drug distribution system. So far, those counterfeits have had little impact on U.S. patients, but opening up the system to foreign drugs will put Americans at risk.

MALPRACTICE REFORM: Like Obama, McCain says he wants to move forward on malpractice reform but has provided few specifics.

Discussion: Properly structured malpractice reform would reduce frivolous lawsuits and eventually lower health care costs. But we don’t have enough information to know whether either candidate’s plan will do that.

MISCELLANEOUS REFORMS: Like Obama, McCain has made brief references to addressing chronic disease issues, promoting wellness and prevention programs and encouraging the increased reliance on health information technology such as e-prescribing.

CONCLUSION: This election provides a sharp contrast in health care reform visions. The health care system is transitioning to a consumer driven system. But federal efforts can stop that trend if the government begins to dictate benefit designs and provider practices.

Do we want a health care system that looks and functions more like Medicare, or the federal employees’ plan, with government determining what health insurance benefits are offered and how much is paid for insurance and services? Or do we want a consumer driven health care system, where insurers and medical professionals compete, where price and quality information is important and available, and where consumers are seeking value for their health care dollars?

ADDITIONAL RESOURCES FROM CAHI

“The 2008 Presidential Candidates on Health Care Reform”

http://www.cahi.org/cahi_contents/resources/pdf/2008CandidatesHealthCareReform.pdf

“The 2008 Presidential Candidates At-a-Glance”

http://www.cahi.org/cahi_contents/resources/pdf/n147PresidentialCandidates.pdf

“America’s Affordable Health Reform Plan: A Common-Sense Solution”

http://www.cahi.org/cahi_contents/resources/pdf/AmericasAffordableHealthReformPlan.pdf

“The Basics of Health Insurance”

http://www.cahi.org/cahi_contents/resources/pdf/n148BasicsofHealthInsurance.pdf

“Health Insurance Mandates in the States, 2008”

http://www.cahi.org/cahi_contents/resources/pdf/HealthInsuranceMandates2008.pdf

“Small Steps to Big Reform”

http://www.cahi.org/cahi_contents/resources/pdf/n146SmallStepstoBigReformB.pdf



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