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The Worst Bill Ever

Written by: John Goodman

Prior to last Saturday's vote, *The Wall Street Journal* aptly called the House bill "the worst bill ever." The bill is enormously expensive, but it is full of perverse incentives – an issue already plaguing our health care systems.

For individuals, the government will tell you what minimum insurance coverage you have to buy, where you must get it and what premium you will have to pay. Refusing to buy this insurance will result in a fine (tax) equal to 2.5 percent of your income. If you don't pay the fine, you could go to jail.

The government will also tell your employer what type of insurance coverage the company must provide; and companies failing to provide it will face a tax equal to 8% of your wage income. Nominally, employers will be required to pay two-thirds or more of the cost. However, economic theory teaches — and empirical evidence confirms — that employee benefits and labor taxes are completely borne by workers themselves in the form of less take home pay. Thus, the combined penalty workers face for failure to insure is 10.5 percent of income.

During last year's presidential primary, Senator Obama criticized Senator Clinton's proposal to mandate coverage by asserting she would try to force people to buy something they cannot afford and then tax them when they don't buy it — leaving them worse off than they were. Exactly the same criticism applies to Pelosi's play-or-pay mandates.

As an unintended consequence, the bill encourages employers to drop health insurance coverage, forcing workers to buy coverage in a government-regulated health insurance exchange. Depending on their income, workers will receive subsidies when they purchase in the exchange. Many employers will find it more lucrative to drop coverage and pay taxable wages instead. The insurance subsidy means the employee can be thousands of dollars ahead. And the lower the employee's income, the more profitable this decision becomes. However, workers will not be able to make this decision as an individual. If your employer decides that dropping coverage is good for the group as a whole, you will be swept up in the change.

This is why millions of people will lose their current employer coverage, despite President Obama's promise that you can keep your current plan if you like it. (Lewin estimates 19 million would lose coverage

under the Senate bill.) These people will be forced into Medicaid where there is already rationing by waiting or into a health insurance exchange, if they obtain new insurance at all.

Another unintended consequence is encouraging healthy people to be uninsured. Why pay expensive premiums for health insurance right now if you do not have any health problems? Under the House bill, there would be no reason to do so. People would be able to wait until after they get sick to insure and they would be able to do so without any additional financial penalty. The penalty for not entering the exchange and buying insurance is 2.5 percent of pay – far less then the cost of premiums for costly insurance.