

**BRIEF ANALYSIS**

No. 116

*For immediate release:**Thursday, July 14, 1994*

## Health Plans: Bonanza for the Poor, Costly for Middle Class

Four congressional committees have now produced versions of the Clinton administration's health care plan. Three of the bills would force all Americans and their employers to purchase a health insurance package that has become increasingly bloated with costly, special-interest benefits. The fourth bill, produced by the Senate Finance Committee, would require employers to *offer*

TABLE I

### Families Eligible for Premium Subsidies

<u>Proposal</u> <sup>1</sup>	<u>Family Income As a % of Poverty</u> <sup>2</sup>
Clinton	150%
Senate Labor Comm. (E. Kennedy, D-MA)	150%
Education & Labor Comm. (W. Ford, D-MI)	200%
Senate Finance Comm.: (D. Moynihan, D-NY)	
General	200%
Preg. women & child.	250%
Ways & Means Comm. (S. Gibbons, D-FL)	240%

<sup>1</sup> Committee chairman in parentheses.

<sup>2</sup> Poverty level income is \$14,800 for a family of four in 1994.

health insurance to their employees without any mandate to pay for it. Even in this bill, however, neither individuals nor employers could deduct health insurance expenses unless they purchased a plan with benefits determined by the federal government.

**A New Entitlements Program for the Poor.** The biggest winners would be people with incomes below the poverty level. Under all four bills, Medicaid patients would be able to join private health plans, with most

deductibles and copayments waived and their premium paid by government. Under the House Ways and Means bill, they would be able to join a new government program called Medicare Part C. The near-poor would also be entitled to these benefits, mainly subsidized by government.

The history of entitlements programs is that they grow. And this one is growing by leaps and bounds even before it reaches the floor of either chamber for a vote.

■ Whereas the original Clinton plan sought premium subsidies for families earning as much as \$22,500, Senate Finance raised that ceiling to \$29,600 and House Ways and Means raised it again to \$35,520. [See Table I.]

■ Whereas Clinton was willing to charge \$10 for a doctor visit (to discourage frivolous trips), Senator Kennedy's Labor Committee weighed in with bids of \$2 and \$4 for almost half of all families, while the House Ways and Means Committee would require many families to pay nothing. [See Table II.]

■ *Congressional Quarterly* predicts that if the Medicare Part C program were adopted, eventually half the population would be on Medicare.

**The Bidding War for Benefits.** In what has been largely a partisan affair, Democrats have demonstrated their eagerness to promise voters health care benefits ostensibly paid for by someone else.

■ Whereas the Clinton bill would have provided pap smears for women every three years, both Kennedy and the House Education and Labor Committee make the test available annually.

■ Whereas Clinton would have provided for mammograms every other year after age 50, Kennedy and the House Education and Labor Committee upped the ante to every other year after age 40 and every year after age 50.

■ Whereas Clinton proposed adding dental care in the year 2001, the House Education and Labor Committee would make dental checkups and teeth cleaning available immediately — with no patient copayment.

■ Kennedy added family planning services with no copayment or deductible; Education and Labor added annual breast checks for women; and House Ways and Means added chiropractic care for everyone and free eyeglasses and hearing aids for poverty-level families.

■ All four bills added or expanded some type of long-term care benefit.

**Burdens for the Middle Class.** Middle-class families would be forced to buy extra benefits for themselves whether they want to or not and to subsidize an expensive new entitlement for the poor through higher taxes and higher premiums. Moreover, the income subsidies are withdrawn in ways that create “marginal tax rates” of up to 72 percent. Such subsidies would encourage many people to work less, have lower incomes and get even more subsidies — increasing the burden on the middle class.

**Penalty for the Middle Class: Lost Wages and Lost Jobs.** These bills are based on the fiction that fringe benefits such as health insurance are paid out of the pockets of employers. Economists have shown that health insurance premiums are a substitute for wages and that employer mandates are paid for by workers — not by their employers. And independent studies have shown that the Clinton health plan — if enacted as originally proposed — would cause the loss of about one million jobs and lead to lost wages of about \$100 billion per year. The three committee bills with employer mandates would create even greater burdens.

**Penalty for the Middle Class: Higher Taxes.** In addition to raising cigarette taxes and applying the Medicare payroll tax to state and local employees, all four bills would eliminate the ability of employees to make tax-free deposits to Flexible Spending Accounts to

pay medical expenses not paid by an employer’s plan. Only the Ways and Means bill would offset this loss, and it would do so with an even bigger gain: the right to make tax-free deposits to Medical Savings Accounts.

An across-the-board tax of 1.75 percent (Senate Finance) or 2 percent (House Ways and Means) would be imposed on all health insurance plans. Senate Finance would end the current employer tax deduction for benefits not included in the government-designed benefit package, and slap a 25 percent tax on the extra premium charged by high-cost (read: high-quality) plans — virtually taxing them out of existence.

TABLE II  
**Cost of a Doctor Visit**

<u>Proposal</u> <sup>1</sup>	<u>Family Income</u> <sup>2</sup>	<u>Out-of-Pocket Charge</u>
Clinton	All incomes	\$10
Ed. & Labor	0 - \$22,200	\$2
Senate Labor	0 - \$14,800	\$2
	\$14,800 - \$29,600	\$4
Ways & Means:		
General	0 - \$14,800	0
AFDC families and others	0 - \$29,600	0

<sup>1</sup> Low-cost sharing plans.

<sup>2</sup> Family of four.

**Penalty for the Middle Class: Higher Premiums.** Middle-class families will face higher premiums for their own insurance through cost shifting. For example, Medicaid enrollees use twice as much health care as other people. But they will be able to join private plans and pay the same premium charged to everyone else. Moreover, low-income enrollees in private plans will face lower deductibles and copayments than other enrollees. [See Table II.] These subsidies will be funded by overcharging everyone else.

Under the Senate Finance version, people will be able to delay buying insurance until after they get sick. Payment of their medical bills will begin immediately if they buy insurance during a three-month amnesty period, and insurers will have to start paying in no more than six months.

**Alternatives:** Any needed changes in the current system could be easily implemented without creating a burdensome new entitlement program.

**Recommended Reading:** Peter J. Ferrara, John C. Goodman, Molly Hering, Merrill Matthews and Morgan O. Reynolds, “The Clinton Health Plan,” NCPA Policy Report No. 184, May 1994.