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Senator Mitchell's War On the Middle Class

Senate Majority Leader George Mitchell (D-ME) has proposed a health care reform plan that is currently being debated in the Senate. Whereas some more modest proposals have been dubbed "Clinton lite," the Mitchell bill could be aptly termed "Clinton heavy." Many elements of President Clinton's original plan that were thought to be politically dead have been revived.

- Although health alliances technically would not be mandatory, as a practical matter most Americans would be forced into them; although they would not technically be monopolies, as a practical matter they would likely become so.
- Although mandates would not be imposed initially, they almost certainly would be after a few years, via a "trigger" mechanism.
- Although there would be no formal global budgets or price controls, they would be indirectly imposed by means of a tax on high-cost (read: high-quality) health plans.

Indeed, the primary difference between Mitchell's plan and Clinton's is that Mitchell's promises even more taxes and spending. The Congressional Budget Office (CBO) claims that without reform health care spending will consume 20 percent of GNP by the year 2003. President Clinton's original goal was 19 percent. The CBO and the Joint Committee on Taxation predict that the Mitchell bill would increase spending to 21 percent.

Republicans have calculated that the bill would impose 17 new taxes, create 50 new bureaucracies, impose 177 new functions on state governments and subsidize as many as 110 million people.

One of the Largest Spending Programs in History. The Mitchell bill proposes a blizzard of new government subsidies, benefit programs, entitlements and spending increases. These include:

- Health insurance subsidies for individuals and families up to 200 percent of poverty, or about $32,000 for a family of four, and for families with pregnant women and children up to 300 percent of poverty, or close to $50,000 for a family of four.
- Additional subsidies for the unemployed to purchase insurance.
- Subsidies that limit the employee share of insurance costs to no more than 8 percent of income.
- Subsidies for employers who expand coverage for their employees.
- A new home health care program that is likely to cost several times its official CBO estimate.
- New Medicare benefits for prescription drugs.

Burdens for the Middle Class: Higher Taxes. The CBO predicts that over a five-year period, 1996 to 2000, the bill would impose almost $100 billion in new taxes to be paid mainly by the middle class. Among the taxes are:

- A 1.75 percent tax on all private health insurance premiums ($32.8 billion).
- A 45-cent increase in the tax on a pack of cigarettes ($28.3 billion).
- A repeal of the provision that allows employers to pay premiums and medical expenses with pretax dollars ($17.3 billion).
- A 25 percent tax on "high-cost" plans which, according to the CBO, would apply to "virtually all plans" ($12.5 billion).

Burdens for the Middle Class: Higher Premiums. Middle-class families would 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 would be able to join private plans and pay the same premiums as everyone else. Moreover, low-income enrollees in private plans would face lower deductibles and copayments than other enrollees. These subsidies would be funded by overcharging everyone else.

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In addition, the Mitchell bill proposes large cuts in Medicare funding, even as it expands Medicare benefits. By the end of the decade, cost shifting from Medicare alone would add at least 6 percent to the average medical bill.

The NCPA calculates that increased cost shifting from Medicaid (causing higher premiums) and Medicare (causing higher medical bills) would more than offset any gain from insuring the currently uninsured. And the CBO estimates that subsidies for the Medicaid population and low-income families would reach $100 billion by the end of the decade and $150 billion by the year 2004.

Burdens for the Middle Class: Managed Competition and Lower-Quality Care. Firms with 500 or fewer employees would no longer be able to manage their own health care plans. Instead, employees would effectively be forced to purchase their insurance through health insurance purchasing cooperatives, Mitchell's version of Clinton's "alliances."

Competing health plans would be forced to charge the same premium to every applicant, regardless of expected health care costs. Because of this one-price-for-all rule, the premiums sick people pay would be well below the expected costs of their treatment, while the premiums of the healthy would be substantially higher.

Since sick people would be unprofitable, health plans not only would try to avoid them, they also would try to encourage patients with expensive-to-treat conditions to leave and join some other plan. Indeed, the natural tendency of managed competition would be to spend no more on the care of the sick than the sick pay in premiums. As a result, seriously ill people would be progressively denied access to the benefits of modern medical science.

The Mitchell bill states that individuals must be given an opportunity to join a fee-for-service plan, under which they could see any doctor of their choice. But such plans would tend to attract sick people with expensive-to-treat conditions and would be unlikely to survive in competition with managed care plans.

Health economists, therefore, expect that under managed competition most people would be forced to join Health Maintenance Organizations (HMOs), which frequently would interfere with the doctor-patient relationship by telling doctors how to practice medicine. Also, HMOs probably would respond to the financial incentives to underprovide to the sick. Furthermore, HMO administrators would have to ration care as the Mitchell tax on high-cost plans either forced those plans from the marketplace or forced them to spend less on health care.

Burdens for the Middle Class: Encouraging People to Remain Uninsured Until They Get Sick. Despite generous subsidies to encourage low- and moderate-income people to purchase insurance, the Mitchell bill might increase the number of uninsured.

Under community rating, everyone would be charged the same premium, regardless of health status. Under the plan's guaranteed issue regulation, insurers would have to accept all applicants regardless of health status and pay for treatment of preexisting conditions after only a few months. These regulations would *encourage people to wait to purchase insurance until they got sick.*

Burdens for the Middle Class: Employer Mandates, Global Budgets and Price Controls. Effectively, almost everyone who has insurance would be forced to purchase a benefit package dictated from Washington, D.C. In any state where 95 percent of the population was not insured by the year 2000, employer and individual mandates would kick in — and people would be forced to buy insurance.

Burdens for the Middle Class: Lost Wages and Lost Jobs. The high taxes the Mitchell bill would impose — both directly and indirectly (through cost shifting) — would lower investment, worker productivity and employee wages. In addition, once employer mandates were triggered, wages would have to fall to offset the increase in mandated benefits. Economic studies of the original Clinton plan predicted one million jobs lost and $100 billion a year in wages lost. Although the Mitchell bill would require employers to pay 50 percent rather than 80 percent of health insurance premiums, the overall economic effects would be similar.