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Senate Mainstream Plan: Compromising Health Care

A group of moderate Republicans and Democrats in the Senate has proposed a so-called mainstream health care plan. Led by Senator John Chafee (R-RI) and Senator John Breaux (D-LA), the group proposed amendments to the health care bill introduced by Senator George Mitchell (D-ME).

Improving the Mitchell Bill. In some ways, the mainstream bill is an improvement. Unlike the Mitchell bill:

- There is no trigger that would impose employer or individual mandates at some time in the future.
- The bill does not put the Medicaid population into private health plans, pay premiums below their expected health care costs and force the private members of those plans to face unfair premium hikes.
- The bill does not create new unfunded benefits for Medicare beneficiaries, such as prescription drugs or long-term care.
- The bill allows Medicare enrollees some freedom to opt into private plans.
- The new taxes in the bill are only about one-half as burdensome as those Mitchell proposed.

Continuing the Defects of the Mitchell Bill. The mainstream group stopped short of correcting a number of other defects in the Mitchell bill, however.

- The mainstream bill has no provision for Medical Savings Accounts or any other means to control health care costs without rationing.
- The bill is designed to force most Americans to accept a standard benefits package.
- The plan is largely financed through cost shifting — for every dollar of direct taxes there are about four additional dollars of hidden costs.
- The bill would provide about $270 billion in subsidies paid for by the middle class for lower-income families not on Medicaid.
- Insurance regulations would encourage many people to forgo purchasing insurance until they got sick.

Making the Mitchell Bill Worse. In some ways, the mainstream proposal is even worse than the original.

- The mainstream bill cuts Medicare funding even more than the Mitchell bill — requiring either massive cost shifting to non-Medicare patients or health care rationing for the elderly.
- The mainstream bill imposes an even more onerous tax on high-cost health plans than the Mitchell bill.

Let's take a closer look at details of this proposal.

Subsidies for Lower-Income Families. The bill provides for overly generous health insurance subsidies for individuals up to 200 percent of the poverty level, or about $30,000 for a family of four today, and for pregnant women and children up to 240 percent of poverty, or close to $36,000 for a family of four today.

There also are new home health care benefits for individuals up to 150 percent of poverty and for the developmentally disabled without income limit. These benefits involve not health care but assistance with basic activities of daily living, such as cooking, cleaning, bathing and dressing. The program would largely displace the widespread voluntary assistance of family and friends and, as a practical matter, could not be monitored to control costs.

Burdens for the Middle Class: Higher Taxes. Although the Congressional Budget Office has not completed its formal analysis of the mainstream plan, its sponsors predict the bill will raise about $125 billion in new tax revenues over the next 10 years. New taxes include:

- Repeal of the employer's ability to deduct employee health insurance to the extent that a health plan's cost exceeds 110 percent of the average cost of plans in the same area.
- A 45-cent increase in the tax on a pack of cigarettes.
- A repeal of the provision that allows employees to pay premiums and medical expenses with pretax dollars.
- Extension of the Medicare hospital insurance tax to all state and local employees.

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Reducing the employers' ability to deduct the cost of health plans, although nominally a new tax for employers, would actually affect employees — since fringe benefits and taxes on fringe benefits are a substitute for wages.

Such a tax would impose a particularly severe penalty on fee-for-service plans, which cost more because they allow unlimited freedom of choice among doctors, hospitals, specialists, services and treatments. Under the bill, the wealthy would still be able to afford such fee-for-service plans. But middle-class employees would effectively be taxed into managed care plans that would restrict their choices.

The other major revenue raiser — the higher tax on cigarettes — also would be regressive. Since smoking varies inversely with income, the increase in the cigarette tax would fall disproportionately on lower-income families. In fact, the cigarette tax is probably the most regressive of all federal taxes.

Burdens for the Middle Class: Increased Cost-Shifting. Over a 10-year period, the bill would cut $260 billion of funding from Medicare and $110 billion from Medicaid. This implies massive cost shifting as doctors and hospitals try to make up for the underpayment by Medicare and Medicaid by raising charges to private patients. Even under the current system, underpayment of medical bills is expected to reach $108 billion by the year 2003. If these costs cannot be completely shifted, elderly patients will receive inferior or rationed care.

Burdens for the Middle Class: A One-Size-Fits-All Benefit Package. Under the bill, the tax exemption for health insurance would be allowed only if the employer or employee buys all of the benefits in one of two standard packages specified by the government. As a result, effectively everyone would be forced to buy the health insurance coverage chosen by the government — and influenced by powerful special interests — rather than the coverage that meets their individual and family needs.

Both packages would include coverage for abortion, drug and alcohol rehabilitation, open-ended mental health benefits and many routine health services that may be cheaper if paid for directly rather than through insurance. While people could pay extra for additional (supplemental) benefits, they could not replace benefits they did not want with others they did want in their standard health plan.

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 mainstream 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.

Thus people could go without insurance, secure in the knowledge that they could always obtain coverage if they got sick. Patients with AIDS, cancer or heart disease, for example, would have to wait six months at most before their insurer would start paying their medical bills. Such regulations would *encourage people to wait to purchase insurance until they got sick.*

Burdens for the Middle Class: Lost Wages and Lost Jobs. The high taxes the bill would impose — both directly and indirectly (through cost shifting) — would lower investment, worker productivity and employee wages. Some idea of the magnitude of these losses is indicated by the NCPA's forecast of the economic effects of the Mitchell plan.

- If the Mitchell bill were enacted, GDP would be about $133 billion lower than otherwise by the year 2004.
- That loss is equal to about $1,000 for every U.S. household.
- The inefficiencies caused by attempting to expand health care output combined with the impact of higher taxes and work-discouraging subsidies would harm the economy as a whole and lead to 918,000 fewer jobs by the year 2002.