National Center for Policy Analysis

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A Health Policy Agenda for the 105th Congress

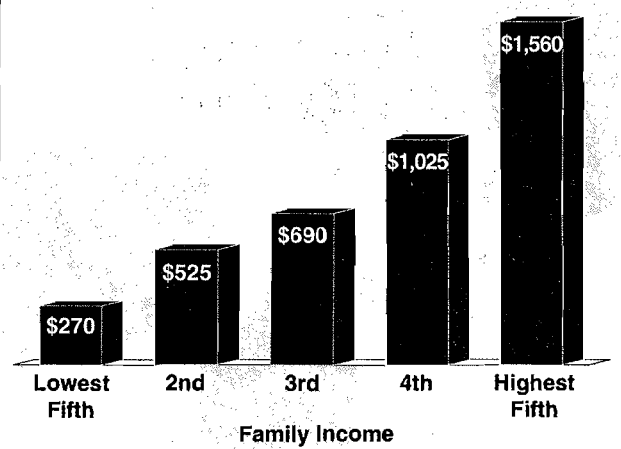
Most people believe there will be only incremental change in federal health policy over the next two years. President Clinton proposes to insure just 5 million of the approximately 40 million Americans who are uninsured at any one time, and his State of the Union message largely ignored other problems in health care policy. So far, the Republicans have no major health policy proposal.

But three major health care crises are developing: a funding crisis, an insurance crisis and a quality crisis. All three require fundamental changes in federal policy. And all three will become more severe if action is delayed.

Funding Crisis. Until recently, the American health care system paid for indigent care through a system of cost shifting. Some patients were overcharged so that others could be undercharged or given free care. Today, with 40 percent of hospital beds empty, the hospital marketplace is fiercely competitive. So is the market for physician services. Such competition is eliminating the ability to fund care for some by overcharging others.

Insurance Crisis. The number of Americans uninsured at any one time has steadily risen over the past decade and now totals more than 40 million people, nearly 10 million of whom are children. One reason for the rise is federal tax policy. Each year the federal government "spends" about $100 billion in subsidies for private health insurance by excluding employer-paid premiums from the employee's taxable income. We get what we subsidize. About 90 percent of all citizens with private health insurance get it through an employer, and those who do not have the opportunity to obtain tax-subsidized insurance often go without. Moreover, these tax breaks go mainly to middle- and upper-income families who least need the financial incentives. As Figure I shows, families in the top fifth of the income distribution get about six times as much relief as families in the bottom fifth.

FIGURE I
Average Tax Subsidy for Health Insurance[1]



[1] Subsidies include reduced Social Security (FICA) and income taxes.

Source: C. Eugene Steuerle, "Finance-Based Reform: The Search for Adaptable Health Policy," paper presented at an American Enterprise Institute conference on American Health Policy, Washington, DC, October 3-4, 1991.

Another reason for the problem is that a new federal law and a growing number of state laws require insurers to accept applicants regardless of their health status. These laws encourage people to go without health insurance while they are healthy by making it easy for them to obtain health insurance when they get sick.

Quality Crisis. Why are there so many stories about HMOs abusing sick people? One reason is that HMOs often compete in artificial markets, in which employers or government officials — not patients — determine who will provide care. Though many employees and increasing numbers of Medicare enrollees can choose among several HMO plans, even the process of choosing can impact the quality of care. The reason is that the HMO receives the same premium whatever the applicant's health status. Thus HMOs have an incentive to attract the healthy and avoid the sick, which they do in two ways. First, they overprovide care for the healthy by offering such amenities as health club subscriptions. Second, they underprovide care to the sick, encouraging them to take their business to some other health plan.

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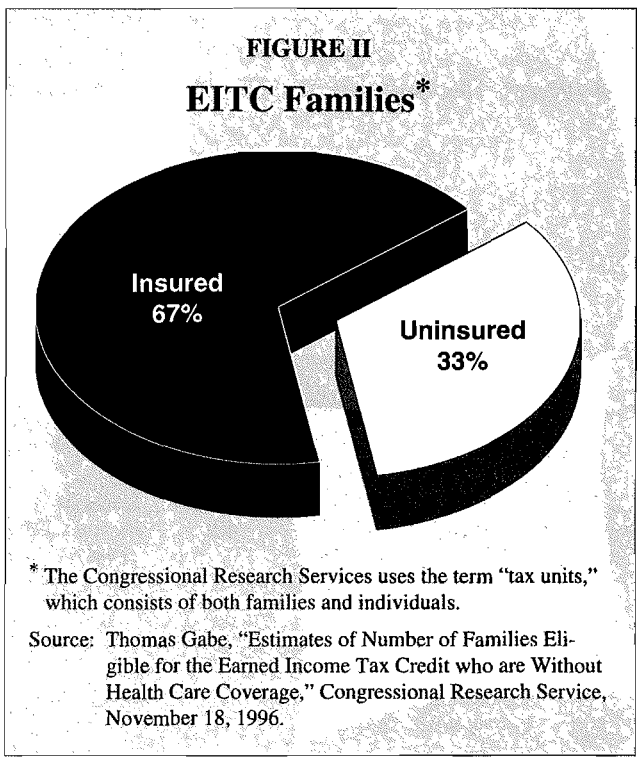
Solution: A $500 Tax Credit. We could go a long way toward solving these three crises by simply offering health insurance tax credits to people who are not insured by employers or by government. The tax credit would be refundable, so that people could file a tax return and receive a refund even if they owe no taxes. Since people who have employer-provided insurance receive an average tax subsidy of about $500 per year, a reasonable proposal would be to offer a $500 per person subsidy to every uninsured person who purchases insurance.

There are reasonable variations on this idea. Since health insurance for a child averages between $700 and $800 per year, a $500 subsidy is quite generous. The subsidy could rise to $750 for an adult and be capped at $2,500 for a family of four. It also could rise as income falls, giving the greatest relief to those who need it most.

Fortunately, this program could be largely paid for by using funds already in the budget. Currently, the Earned Income Tax Credit (EITC) program spends about $25 billion in cash on payments to about 17.2 million low-income workers. The amount can reach $3,556 per family. As Figure II shows, most EITC families have health insurance, but about one-third do not. If payment of EITC were made conditional upon proof of insurance, families would have the choice of purchasing a private health insurance policy or having their EITC refund reduced by $500 per uninsured person. Similarly, the proposed $500 per child tax credit for middle-income families could be made conditional on proof of insurance.



Solution: A $500 Safety Net Payment. Under this proposal, everyone would either be insured or have $500 sent on their behalf to their state or local community as part of a safety net for indigent health care. Those without private insurance would be covered by a public system, and local communities would have a guaranteed source of funds for indigent care — one that would grow or shrink with changes in the numbers of uninsured. Communities also should have discretion over the use of such funds. For example, they might buy Medicaid for their uninsured or simply cover the medical bills the uninsured are unable to pay on their own.

Solution: Alternatives to HMOs. The $500 tax subsidy could be applied to the full range of insurance products in the market today, including fee-for-service health insurance and deposits to Medical Savings Accounts (MSAs). Thus people in such programs as Medicaid managed care would receive reasonable help from government if they wanted to choose a private alternative instead. This would encourage eventual competition between state Medicaid programs and private companies seeking to insure that population.

Conclusion. Insuring the nation's 40 million uninsured or at least providing them with safety net coverage is not as difficult as it may seem. And failure to do so will result in more serious problems in the future.

This Brief Analysis was prepared by John C. Goodman, president of the National Center for Policy Analysis.