

BRIEF ANALYSIS

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The Gore Health Proposal: One Step Forward, Three Steps Back

Vice President Al Gore's new health care reform plan proposes a major step toward eliminating severe inequities in the tax law and giving needed relief to the millions of people who must buy their own health insurance or go without.

Unfortunately, the Gore plan also calls for the expansion of three major government health programs — using money that could be more efficiently and more effectively spent helping people acquire private insurance.

Good Idea: Insurance Tax Credits. Gore has put his finger on a major reason why the number of uninsured has reached 44 million and continues to grow: a federal tax system that lavishly subsidizes the health insurance of some families while giving no relief to others. The federal government "spends" more than \$125 billion a year on tax subsidies for employer-provided health insurance — a tax benefit that can cut the cost of health insurance in half for many middle-income families. By contrast, individuals who purchase their own health insurance get virtually no tax relief. They must buy insurance with aftertax dollars, forcing many to earn twice as much income before taxes in order to purchase the same insurance.

Gore proposes to rectify this imbalance by offering a 25 percent refundable tax credit for those who purchase their own insurance. (Refundable means that individuals can file a return and get the subsidy even if they do not owe income taxes.) The proposal is consistent with

several other proposals on Capitol Hill but is not as generous or as effective.

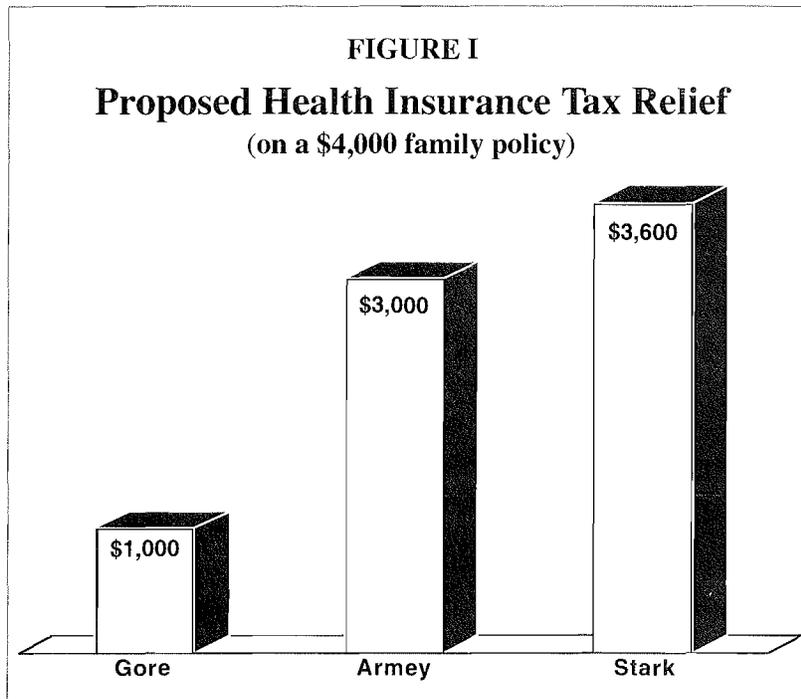
For example, it is far less generous than tax credit proposals offered by Rep. Dick Armey (R-Texas) and Rep. Pete Stark (D-Calif.). [See Figure I.] Gore's proposal also offers lesser incentives. Armey and Stark would subsidize core insurance, forcing the taxpayer to pay for any bells and whistles with aftertax dollars. The Gore subsidy, by contrast, is unlimited — 25 percent of spending, no matter how wasteful. Still, this is a step in the right direction. The same cannot be said for the other elements of the Gore plan.

Wrong Approach: Expanding Medicare.

Gore proposes to allow people between the ages of 55 and 65 to buy into Medicare. Critics point out that those most likely to take advantage of the Medicare expansion are the sickest and most costly patients, who would put a tremendous burden on the already financially troubled program. Another problem: dollar for dollar, Medicare is one of the worst buys in the marketplace. Medicare coverage exposes seniors to thousands of dollars of personal

expenses. Last year, for example, 360,000 Medicare beneficiaries faced \$5,000 or more in out-of-pocket costs. To avoid these financial risks, a majority of seniors obtain private insurance through a former employer or purchase supplemental "medigap" insurance. However, seniors with medigap insurance consume significantly more health care services — many of them wasteful — than do those without such insurance.

To eliminate this kind of waste and make Medicare dollars cover more needed services, Congress has been trying for several years to give the elderly the opportu-



nity to leave Medicare and enroll in the types of private plans that are available to the nonelderly. Gore's proposal would reverse this effort, encouraging the near-elderly to buy inferior insurance when dollars could buy better coverage in the private market.

Wrong Approach: Expanding CHIP. Another mistake is the proposal to expand the Children's Health Insurance Program (CHIP), which provides insurance to children from low-income families. While the goal is laudable, the reality is that CHIP is not accomplishing its intended purpose. The number of uninsured children has risen since the program began, and many children now covered by CHIP would have had insurance anyway — either through a parent's employer or through Medicaid.

The federal government appropriated \$40 billion through 2007 to cover uninsured children, mostly in the form of block grants to the states, which contribute another 25 percent. Originally, the Congressional Budget Office (CBO) estimated that 2.3 million children would enroll by the end of 1999 and that as many as 40 percent might simply switch from other insurance. In reality, enrollment in CHIP has fallen far short of those estimates. Thus far, administration sources indicate that 1.3 million children have been covered under CHIP; it is not known how many of those were previously uninsured. As Figure II shows:

- In 1995, before CHIP, there were 9.8 million children without health insurance.
- By 1998 this number had grown to 11.1 million despite the advent of CHIP.
- During the same period, the number of children with Medicaid coverage dropped from 16.5 million to 14.3 million.

We are spending several times more for each child insured under CHIP than the cost for a comparable policy purchased in the private sector. Yet Gore proposes expanding CHIP by 2005 to cover children in families with incomes up to 250 percent of the poverty level (about \$41,000 for a family of four).

Wrong Approach: Expanding Medicaid. Gore also proposes allowing children from families at any income level to buy into CHIP or Medicaid. Further, he proposes expanding CHIP by allowing parents to buy into it if they do not have access to employer-provided

health insurance, with each state setting the upper-income eligibility level. Although CHIP and Medicaid are theoretically separate programs, in practice they are often the same. When the Republican Congress enacted CHIP, the intent was to encourage private health insurance. As a practical matter, however, bureaucratic rules and regulations have induced most states to enroll CHIP members in Medicaid.

So what's wrong with expanding Medicaid? Because Medicaid is a program for the poor that pays

low reimbursement rates, it will always have problems attracting the best doctors. Thus we should be trying to figure out how to get people off Medicaid and onto private insurance. Gore's plan does just the opposite. Interestingly, Gore challenger Bill Bradley has proposed abolishing Medicaid and allowing enrollees to buy private insurance instead.

Conclusion. In general, the Gore plan relies on government to solve health care financing problems better left to the private market. In this respect, it takes one step forward and three steps back.

This Brief Analysis was prepared by NCPA Research Manager Devon Herrick.

