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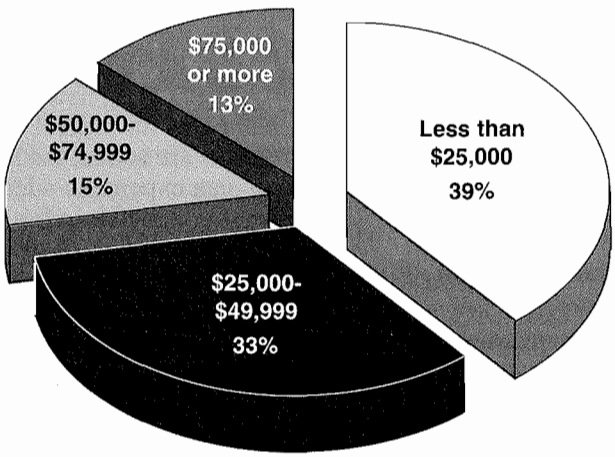
Bill Bradley's Health Plan:
Two Steps Forward, Six Steps Back

Former Sen. Bill Bradley is the first credible presidential candidate to call for abolishing Medicaid and allowing low-income families to buy private insurance instead. He would also end the discriminatory practice of denying tax relief to those who buy their own insurance by creating tax credits for low-income purchasers and tax deductions for everyone else.

Unfortunately, these positive steps are offset by the Bradley plan's serious defects. For example, Bradley's tax credits would penalize low-income workers by increasing marginal tax rates —effectively taking 73 cents out of a last dollar of wages. The proposal also would allow some taxpayers to triple-dip — to get three separate tax breaks for the same insurance and waste federal money.

The plan has other problems as well. It would encourage middle-income families to purchase too much insurance. It would turn the nation's health plan for federal employees into a dumping ground for the sickest, most costly patients. And rather than creating private options for Medicare (as it does for Medicaid), the plan would enlarge and expand this federal program for seniors.

Uninsured by Household Income



Source: U.S. Census Bureau, Current Population Survey, March 1999.

Privatizing Medicaid. Since its inception, Medicaid has been plagued by waste, inefficiency, fraud and low-quality care. In recent years, the move toward managed care appears to have improved the quality and increased the efficiency of Medicaid. But since most low-income families have no choice among the HMOs they are enrolled in, managed care threatens to become a vehicle for rationed care.

The Bradley plan would end this two-tier system of medical care. Low-income families would be able to take funds now spent on Medicaid (in the form of tax credits) and purchase the same kinds of insurance available to everyone else.

Creating Tax Fairness. Tax subsidies for the purchase of private health insurance now total $125 billion a year. In effect, taxpayers — via the federal government — are paying for almost half the cost of employer-provided insurance for many middle-income families. Yet families in the bottom fifth of the income distribution get only one-sixth as much help as those at the top, and people who buy their own insurance get virtually no help at all.

The Bradley plan moves in the right direction — by giving the credits and tax deductions to people who purchase insurance on their own. Unfortunately, because its mechanics are highly defective, the plan wastes taxpayer dollars and encourages people to over-consume health care.

Raising Marginal Tax Rates. Bradley's refundable tax credit for low-income families (up to $5,000 a year) is more generous than tax credit plans on Capitol Hill, including proposals by Dick Armey (R-Texas) at $3,000 and Pete Stark (D-Calif.) at $3,600. However, Armey and Stark would make their credit available to all families, regardless of income. Bradley, by contrast, would phase out the credit for adults at a family income of 200 percent of the poverty level ($32,800) and phase out the credit for children at an income of 300 percent of the poverty level ($49,200). As Harvard University Professor Martin Feldstein points out, this sliding-scale subsidy structure sharply increases marginal tax rates.

For example, the subsidy for a family of four with two adults is reduced $22 for every extra $100 of earnings, equivalent to a 22 percentage point increase in their marginal tax rate. A family of four with $25,000 of income already faces a 51 percent marginal tax rate (from another dollar in earnings, 15 cents goes to income taxes, 15.3 cents to payroll taxes and 21 cents of earned income credit is lost). Add the 22 percent from the

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reduced Bradley health subsidy and the effective marginal tax rate would climb to 73 percent.

Allowing Taxpayers to Triple-Dip. Under the Bradley plan, there are three types of tax subsidies for private insurance. Many families will qualify for two and some may be lucky enough to qualify for all three. First, there is the current practice of excluding employer payments for health insurance from the employee's taxable income. Then there is the tax credit. Most tax credits are allowed against expenses, but the Bradley plan grants a tax credit to an applicant even if the employer pays for the insurance. The taxpayer need only present proof of insurance to qualify. In addition, if the employee chooses a plan requiring an employee contribution greater than the tax credit, Bradley would allow a deduction for the extra out-of-pocket cost.

This triple-dipping gives taxpayers three rewards where one would suffice.

Wasting Federal Dollars. By his own calculations, Bradley estimates the plan will cost $65 billion a year and will insure an additional 30 million people (about two-thirds of the current uninsured). This amounts to $2,200 for each newly insured person, or $8,800 for a family of four. Economist Feldstein, however, puts the price tag at $110 billion in the first year alone. That equals $3,300 for each newly insured person, or more than $13,000 for a family of four.

Encouraging Wasteful Overinsurance. Although many employers provide health insurance to their employees, most require their employees to pay a portion of the premium. Where employees have a choice of health plans, they typically must pay the extra cost of more expensive choices out of their own pockets with aftertax dollars.

By making these extra payments fully tax-deductible, the Bradley plan would encourage (subsidize) high-priced choices. The result would be overconsumption of health care and a higher national health care bill.

Expanding Medicare. Bradley is unwilling to do for the elderly what he proposes to do for the poor — allow them access to the same kinds of insurance everyone else has. Instead, he wants to expand Medicare.

Numerous studies show that when the elderly combine private medigap insurance (to plug the holes in Medicare) with Medicare, the result is a wasteful and inefficient system. In fact, a study by the actuarial firm Milliman & Robertson for the National Center for Policy Analysis concludes that for the same money, the elderly could have comprehensive private-sector coverage including prescription drugs. That's why there is strong support on Capitol Hill for allowing the elderly access to the full range of private sector options.

By contrast, Bradley's plan moves in the wrong direction — expanding an already defective program by adding a prescription drug benefit and more home-based care.

Turning Federal Employee Insurance into a National Risk Pool. Bradley's tax credits and tax deductions can be applied to the purchase of individual insurance in any state. However, the plan also would create a new insurance option. Individuals would have the right to buy into plans currently available to federal employees under the Federal Employees Health Benefits Program (FEHBP). These plans are community rated (same premium for all employees) and are required to accept all applicants regardless of health status. Thus, seriously ill people who cannot qualify for ordinary insurance would be able to sign up for a federal employee plan instead.

That's great news for the uninsurable. But it may be bad news for federal employees. Unless more subsidy dollars are added, the higher-cost newcomers will force up plan expenses — leading to higher premiums and/or smaller benefits in future years.

Will the Bradley Plan Result in Universal Coverage? If that is Bradley's goal, his is a costly effort that will fall well short. Current estimates place the number of uninsured Americans at 44.5 million. People are uninsured for many reasons, not all of them having to do with money. As the figure shows, 28 percent are in households with incomes above $50,000 per year, according to the Census Bureau; it does not report how many children are in that group. Although the Bradley proposal requires that all children have health insurance, the former senator proposes no mechanism for enforcing the requirement. In addition, a substantial proportion of the uninsured are in families with annual household incomes between $32,800 — the level above which there would be no tax credit — and $50,000. Given all these facts, many economists believe the Bradley proposal would come nowhere near insuring all Americans.

A better solution is one developed by the NCPA: offer every family a refundable tax credit and, if some people choose to remain uninsured, use their unclaimed credits to fund a safety net for indigent health care.

This Brief Analysis was prepared by NCPA President John C. Goodman and Vice President for External Affairs Jack Strayer.