



BRIEF ANALYSIS

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Two Cheers for Bush Health Plan

by John C. Goodman

Ever since Hillary Rodham Clinton's failed attempt to restructure the nation's health care system, members of Congress have been reluctant to propose any major health care reforms, sticking instead to reform by small steps.

All that may have changed. As a candidate, President Bush signaled his intent to be aggressive about health care in ways previous presidents were not. With a speech before the Medical College of Wisconsin, he let the nation know that he was serious.

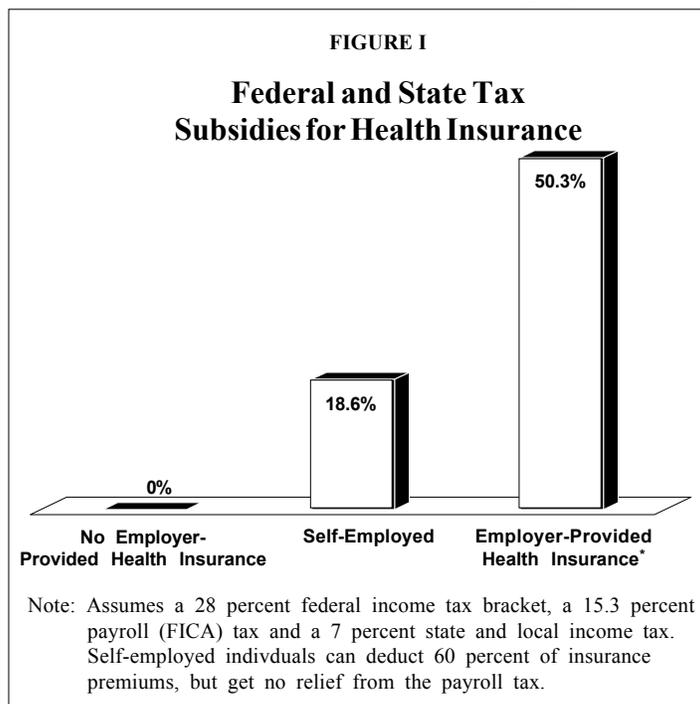
Patient Power. Health care reform must begin with a vision, and the president left little doubt about how he departs from those who have gone before him. The solution to the nation's health care woes is to empower individuals rather than large, impersonal bureaucracies. Bush proposed to empower people by (1) creating health savings accounts, (2) encouraging individuals to purchase private insurance and (3) creating new options for enrollees in government health programs.

The problem with managed care is that a bureaucracy collects all the health care dollars and makes all the treatment decisions. Although medical practice in such plans is supposed to be based on sound science and proven technologies, managed care organizations have an economic incentive to sacrifice patient welfare to the goals of cutting costs. Worse still, doctors in such a system tend to see employers and health insurance companies as their real customers. Rather than serving as agents of the patients they are treating, physicians have an incentive to become the agents of those who pay the bills.

Expanding MSAs. One antidote to this condition is to put more money in the hands of the patient. Under a

federal pilot program, as many as 100,000 people have tax free medical savings accounts (MSAs). They can use their accounts to pay bills directly that are not paid by insurance. MSAs are popular with those who have them, but they are burdened with so many rules and regulations that their market penetration has been severely limited.

The president has proposed easing those restrictions to make MSAs more broadly available. For example, he would lower the required family deductible (from \$3,000 to \$2,000) and allow all employers to offer MSAs rather than the current practice of limiting them to firms with 50 or fewer employees.



Creating a New Health Savings Account. The President has proposed turning Flexible Spending Accounts (FSAs) into a form of MSA. Unlike the meager number of MSA participants, about 21 million employees have the opportunity to put pretax dollars into a personal FSA, from which to pay medical bills. The problem is: these accounts are governed by a use-it-or-lose-it rule. Any money left at year-end must be forfeited. The President proposes to allow up to \$500 in these accounts to roll over to the next year. In one fell swoop, this proposal would turn a spending account

available to millions of Americans into a savings account that could wrap around almost any health plan.

Health Care Tax Credits. Government tax subsidies for employer-provided insurance currently total \$141 billion a year. Yet people who purchase their own insurance get virtually no tax relief [See Figure I]. Moreover, the subsidies for employer-provided insurance are extremely regressive: families in the top fifth of the income distribution get almost six times as much tax relief as families in the bottom fifth. [See Figure II].

To remedy these inequities the president proposes a refundable tax credit, under which all families up to a certain income level would receive the same tax break if they purchase health insurance.

The main goal of this proposal is to encourage people to voluntarily obtain private insurance. But in achieving this goal, the proposal also opens the door to something desperately needed: personal and portable insurance. The problem with employer-provided coverage is that people must switch health plans whenever they switch jobs. Given the prevalence of managed care, this often means they must also switch doctors. And for people with a health problem, that means no continuity of care. Individually-owned health insurance is the only permanent solution to the portability problem inherent in an employer-based health care system.

Overcoming Objections. Ironically, a major hurdle the president faces is the fear on the part of some conservatives that a health insurance tax credit would turn into another costly “entitlement.” What they overlook is that health care is already a virtual entitlement. Under federal law, hospital emergency rooms are required to take all comers, and we spend billions of dollars every year on free care for the uninsured. For example, a comprehensive study by the Texas State Controller determined that the state is spending \$1,000 per year on free health care for every uninsured person, on the average. That totals \$4,000 for a family of four – enough to buy private insurance in many Texas cities. Other states are even more generous, and federal taxpayers pick up much of the tab.

Although not part of the president’s proposal, a properly designed tax credit for health insurance need not cost the government extra money. Instead, it would ensure that the money we are now spending is spent rationally. A tax credit system would reward those who purchase insurance with a lower tax bill, and the credit could be funded by a reduction in spending on free care, since the ranks of the uninsured would be smaller. Conversely,

those who remain uninsured and forgo the credit would (therefore) pay higher taxes, which could be used to fund the safety net to which many will turn when they get sick.

Another conservative objection is that health insurance tax credits would further complicate the tax code at a time when we should be moving toward a simpler system with lower rates. Fair enough. But the perfect should not be the enemy of the good.

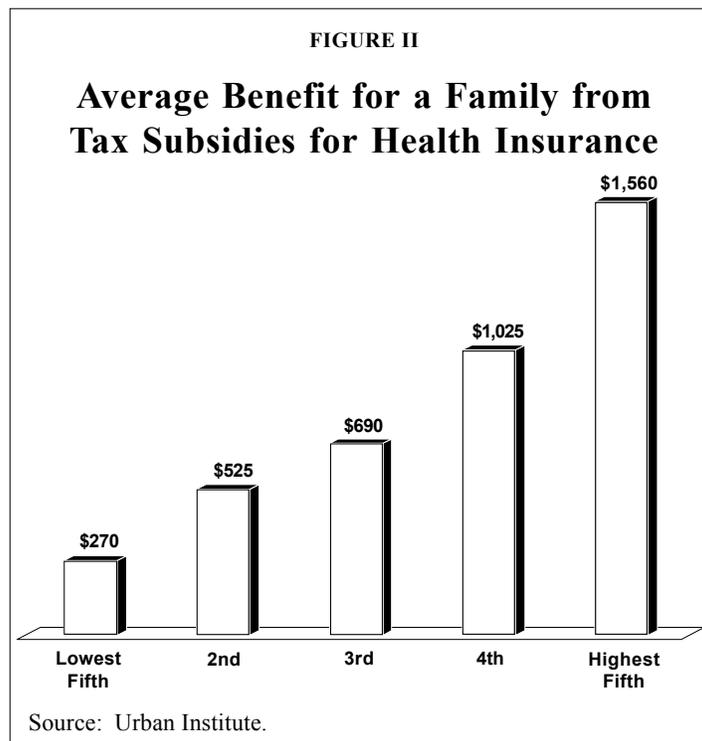
The tax system has already shaped and molded our health care system. The problem is: the current system is arbitrary and unfair, lavishly subsidizing health insurance for some and providing no relief for others. The system is in desperate need of reform, and we should not put reform off indefinitely with the hope that a flat tax is somewhere in our future.

Making the Bush Plan Better. The president’s proposals are not without risks, particularly since they will be acted upon by many in Congress who do not share his vision. Although patients’ rights legislation seems to be working in Texas, a bill produced by Congress could raise costs and close off options – thereby harming the very people the bill intends to help. Similarly, the president’s proposals to expand private sector options for Medicare enrollees could be distorted by those who simply want a larger government program.

Prescription drug coverage is easy, provided seniors can join the kind of health plans nonseniors are enrolled in. But adding one more benefit to Medicare risks further expanding a bloated bureaucracy.

The Bush plan will get a third cheer if it overcomes these risks.

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