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Bush Health Plan: Consumer-Driven Health Care

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In the history of the U.S. presidential elections, there has never been a clearer contrast between the candidates with respect to health care policy. President Bush and Sen. Kerry have endorsed sharply different visions of how to reform the American health care system and both have put forth specific proposals to implement those visions.

Under Sen. Kerry's vision, government would play a vastly increased role, with millions of middle-income families enrolling in Medicaid, the federal-state health program for the poor. Most other families would participate in a national system of managed competition, organized and regulated by the federal government. We have analyzed this proposal extensively. [See "The Case against John Kerry's Health Plan," http://www.ncpa.org/pub/st/st269/.]

President Bush, by contrast, has firmly endorsed the vision of consumer-directed health care. Whereas Kerry's approach would further insulate people from the economic consequences of their choices, Bush's approach would empower patients — allowing them to reap the benefits and bear the costs of the decisions they make.

Establishing Health Savings Accounts (HSAs). As of January 1, 2004, all nonelderly Americans in principle have access to tax-deductible HSAs, from which they can pay incidental medical expenses directly. These accounts must be combined with high-deductible health insurance, with patients typically paying expenses before the deductible from their HSA and relying on third-party insurance to pay costs above the deductible. Employer contributions to these accounts are excluded from employees' taxable income and individual contributions are tax deductible. HSAs are the property of the individual, and unspent funds remain in the HSA account and grow tax free.

Deducting Premiums for HSA plans. Under current tax law, insurance premiums paid by employers are excluded from their employees' taxable income. This tax break is estimated to be worth about $190 billion annually. Individuals who buy their own insurance, however, generally receive no tax relief. This discriminatory tax treatment can double the cost of health insurance for a middle-income family.

President Bush has proposed to substantially remove this inequity by making individually-paid premiums for HSA plans tax deductible. Since individual deposits to HSAs are already tax deductible, the net result will be a more level playing field between individual and group insurance.

Making Insurance Available to Low-Income Families. One problem with exclusions and deductions is that their value depends on the worker's tax bracket. Low-income families facing only a 15 percent payroll tax get a 15 percent subsidy. By contrast, people facing a 40 percent marginal tax rate get a 40 percent subsidy.

In his 2004 State of the Union message, President Bush proposed tax credits of up to $1,000 per individual and $3,000 per family for low-income purchasers of health insurance. These tax credits would be refundable — meaning that families would get the full value of the subsidy even if they do not owe any income taxes.

Making HSAs Available to Low Income Families. More recently, the president proposed allowing one-third of the tax credit for low-income families to apply to HSA deposits. This means, for example, that families qualifying for the maximum credit of $3,000

Bush's Agenda for Consumer-Driven Health Care

- Deductible deposits to Health Savings Accounts (HSAs).
- Deductible premiums for HSA health plans.
- Refundable tax credits for health insurance for low-income families.
- Refundable tax credits for HSA deposits for low-income families.
- Refundable tax credits for small business contributions to HSAs.
- A national market for health insurance.

could apply $2,000 to premiums for the HSA plan and use the remaining $1,000 to fund the HSA account. With this important reform, low-income families would have access to the same health plans now popular with many middle-income families.

Making HSAs Available to Small Business. Although small business employers can currently make tax-free deposits to HSAs (just as large employers can) administrative costs tend to be higher (per employer). Moreover, many low-income workers currently work for small businesses that do not offer health insurance.

Recognizing the small group market as an opportunity to expand the number of people with health insurance, the president has proposed a tax credit (a dollar for dollar rebate) for small businesses that contribute to the HSAs of families (the first $500) and individuals (the first $200).

Establishing a National Market for Health Insurance. President Bush also supports the creation of a national marketplace in insurance, allowing consumers to shop all over the country to get the best coverage at the most affordable prices. This would especially help small employers and individuals in states where onerous regulations have driven up premiums. Insurers and consumers would have two ways to pursue this option. Under "federally chartered health insurance," insurers could meet one set of federal regulations and offer their products to individuals and firms in all 50 states rather than having to meet a different set of regulations for each state in which they do business. Under a state-chartered approach, consumers in any state would be able to buy insurance approved for sale in any other state.

Expanding his previous proposal for Association Health Plans (AHPs), the president proposes allowing small firms to band together and buy health coverage in the national market through their associations (e.g., the National Restaurant Association), as well as through civic and religious organizations.

Advantage: Insuring the Uninsured. The White House estimates that between 11 and 17 million people will become newly insured (on net) under the president's plan. Like the projections of Kerry's health advisers, this estimate may be too high. However, recent experience suggests that Bush may have the stronger argument for his estimate. A recent study by the health insurer Assurant (formerly Fortis) found some 43 percent of HSA applicants were previously uninsured. Earlier Internal Revenue Service data, from the medical savings accounts (MSAs) pilot project, indicate that in 2001 as many as 73 percent of new MSA holders were previously uninsured.

Advantage: Controlling Costs. Prior to this year, the tax law generously subsidized third-party insurance premiums (paid by employers) but penalized self-insurance by taxing deposits to HSAs. This encouraged people to rely on third-parties (employers, insurance companies and government) to pay every medical bill. For example, on the average, people pay only 15 cents out-of-pocket for every dollar they spend on health care. That means they have an incentive to consume medical care until the last dollar spent is only worth 15 cents to them. Not only is third-party insurance extensively subsidized under the tax law, the subsidy is open ended. In principle, employees can always lower their taxes by buying more health insurance — no matter how wasteful.

People now have another option. Instead of over-insuring, and over-consuming, they can get the same tax advantages if the funds are deposited in a savings account.

Advantage: Restoring the Doctor-Patient Relationship. Patients will make better choices if they can rely on doctors who put their interests first. In a managed care world, doctors too often look to employers and insurers for guidance in practicing medicine. In a very real sense, providers view insurers rather than patients as their customers. With HSAs, however, physicians will be free to act as the agents of their patients.

Advantage: Encouraging Portability. Studies suggest that many people stay in jobs solely because they want continuity of health benefits. The number of people experiencing "job lock" may be a high as one-in three males between the age of 25 and 55. HSAs would reduce this number because balances built up over the years would follow workers from job to job. Older workers would have less to fear when starting a new job with fewer health benefits if they have built up balances for use when health needs are greater.

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