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Insuring the Uninsured

What should we do about the fact that as many as 46 million Americans at any one time lack health insurance? My colleagues and I at the National Center for Policy Analysis (NCPA) have been studying this problem for 25 years. Although no political leader has endorsed all of our suggestions, various NCPA proposals have been championed by Republicans and Democrats, liberals and conservatives.

What follows is a brief summary of how we could solve this problem without any new taxes or any new spending programs.

Give everyone a health savings account.

The first line of defense against the financial problems created by illness is to have money in your pocket. No one should ever fail to see a doctor because he lacks \$100 to pay the fee. A RAND study found that after people enter the healthcare system, they tend to get the same care regardless of whether they have health insurance and regardless of the type of insurance they have. But they first have to enter. No one should ever fail to enter the system because of a lack of money.

Accordingly, every individual should be able to deposit up to \$200 into a tax-free health savings account (HSA) every month. This account would wrap around any third-party insurance, serving as a source of funds for any services insurance does not pay for. Employers should be encouraged to automatically enroll their employees in a health savings program (with, say, \$50 or \$100 a month from the employee, matched by the employer).

Give all private health insurance the same tax break.

Currently, the federal government 'spends' about \$250 billion a year on tax subsidies for private insurance. The bulk of these subsidies arise from the fact that the employer payments for employee healthcare are excluded from employee taxable income. As a result, the government is paying almost half the cost of a middle-income family's insurance.

However, most of the uninsured (about 3 out of every 4) are not offered health insurance by an employer. If they purchase insurance at all, they must do it with after-tax dollars. This means that a middle-income family buying insurance directly must pay almost twice as much after taxes as a similarly situated family whose employer is able to buy the same insurance with pretax dollars.

The solution is to subsidize all insurance uniformly. People should receive the same tax advantage for the purchase of insurance, regardless of how it is obtained.

Give every family the same tax break.

Under the current system, families in higher tax brackets get more generous tax relief for purchasing health insurance than families in lower brackets. In fact, according to the Lewin Group, families in the top 20 percent of the income distribution get four times the subsidy as families in the bottom 20 percent. We give the most help to the families who least need it families who probably would obtain insurance without any encouragement.

Ideally, a uniform, refundable tax credit should be offered to every individual for the purchase of private insurance. An example is Sen. John McCain's proposal to offer a tax credit of \$2,500 (individual) or \$5,000 (family). Not only does this proposal treat all families the same, it concentrates the tax subsidy on the core insurance that we want everyone to have, leaving them free to buy additional insurance on their own with after-tax dollars.

Shore up the social safety net.

No matter what we do to encourage people to have health insurance (whether public or private) we will not always succeed. All but three states mandate auto liability insurance, yet the uninsured driver rate on our nation's highways is only a couple of points below the nation's uninsured rate for healthcare. That's why we must have a plan that takes this reality into account.

Return to the idea of offering every family \$5,000.

This amount should be reserved for healthcare, regardless of the family's choice. If the family obtains insurance, it gets \$5,000 to defray some or all of the cost. But if the family stays uninsured, the subsidy should go to a local safety net institution that will be called on to provide free care if the family cannot pay for it.

How do we fund this proposal?

By integrating our tax subsidies (for private insurance) with our spending subsidies (for

uncompensated care). Suppose everyone in a specific county accepted the \$2,500/\$5,000 offer and opted to become privately insured. Then the money we now use to pay for free care would no longer be needed for that purpose. It could instead be used to fund the tax subsidies. On the other hand, suppose everyone in that county decides to become uninsured. Then all of the \$2,500/\$5,000 offers would go to our safety net institutions.

In a rational system, the money would follow individuals. If they insure, the money is there to subsidize that choice. If they stay uninsured, the money is there to subsidize that choice instead.

Give people alternatives to Medicaid and SCHIP.

Most health insurance reform proposals envision opening up Medicaid and the State Children's Health Insurance Program (SCHIP) to more people.

This is a mistake. As people become eligible for free or very low-cost care, they tend to drop their private coverage, and the crowd-out rate is very high. Unfortunately, when they leave the private sector they leave insurance plans that allow them to see almost any doctor and go to almost any facility.

When they enroll in Medicaid (and SCHIP plans that pay Medicaid rates) they have far fewer options. The solution is to reverse the process, making it as easy as possible for people to use their Medicaid dollars to enroll in employer plans and other private insurance.

These are only a few of the ideas we have proposed. There are many more at the NCPA Web site: www.ncpa.org. We always welcome input from others, and we often learn from those with a different perspective than our own.