NATIONAL CENTER FOR POLICY ANALYSIS

Congressional Brief: Health Care

To confront America's health care crisis, we do not need more spending, more regulations or more bureaucracy. We do need people, however, including every doctor and every patient. All 320 million Americans must be free to use their intelligence, their creativity and their innovative ability to make the changes needed to create access to low-cost, high-quality health care.

Key Facts about the U.S. Health Care System

- U.S. health care spending has been growing at twice the rate of growth of national income for the past four decades and that trend shows no signs of abating.
- According to a 2007 *Lancet Oncology* survey, cancer survival rates are *higher* in the United States than in Europe. American women have a 63 percent chance of living at least five years after a cancer diagnosis, compared to 56 percent for European women. American men have a five-year survival rate of 66 percent — compared to only 47 percent for European men.
- Three decades ago, a RAND study found that when people pay a substantial amount of their health care bills out of pocket, they reduce their health care spending significantly, with no apparent harmful effects on their health.
- The portion of overall health care costs American consumers paid out of pocket fell from 47 percent in 1960 to 11 percent in 2013.
- More than 35 million Americans manage some of the dollars spent on their health care in Health Reimbursement Arrangements (HRAs) and Health Savings Accounts (HSAs).

Problems with U.S. Health Care

Health care providers do not compete on price. The reason: Patients rarely pay their own health care bills. About 89 percent of health care costs are now paid by third-party payers — employers, insurance companies or government. The lack of competition under the third-party system has created a highly artificial market plagued by high costs, inconsistent quality and poor access.

Out of Control Health Care Costs

- Since 1975, total spending on health care in the United States has more than doubled, and it now comprises one-sixth of the economy, nearly $3 trillion.
- Some projections show total health spending rising to more than $4 trillion by 2019, consuming one-fifth of the nation's gross domestic product.
- Government health programs (Medicare and Medicaid) and tax subsidies ($300 billion) accounted for more than half ($1.3 trillion) of total health spending in 2012.
- Each additional dollar spent on Medicaid or the State Children's Health Insurance Program (S-CHIP) crowds out 50 cents to 75 cents in private insurance coverage.

The Problem of Quality

- An Institute of Medicine study found that as many as 98,000 people die every year because of medical errors.
- One-in-three hospital patients experience some type of adverse event or medical error.
- RAND Corporation researchers find that patients get recommended care only about half the time.
- RAND found that once they saw a doctor there was very little difference in the quality of health care received by Medicaid enrollees and uninsured individuals.

Command and Control Solutions

- **Government-mandated Electronic Medical Records**: Despite the assertion that centralized electronic medical records will cut costs, supporting evidence is lacking. Such data systems have yet to prove themselves in practice.
- **Pay for Performance**: One proposal for increasing quality is to have insurance companies and government tell doctors what to do, called pay for performance. However, preliminary evidence suggests that pay for performance (sometimes called P4P), or refusing to pay for nonperformance, doesn't improve quality. The centerpiece of the Affordable Care Act's solution to the rising cost of health care is to force doctors and hospitals into forming Accountable Care Organizations. Yet, savings have failed to materialize. In a five-year demonstration with 10 leading health care systems, only four demonstrated savings sufficient to receive a bonus payment.
- **State Mandates**: Studies show that as many as 1 in 4 people who are uninsured have been priced out of the

market by the cost-increasing consequences of mandated benefits, which force insurers to cover certain procedures.

Consumer Choice Solutions

- **Tax Credits**: Use the current health care tax deduction to fund a uniform tax credit so that low- and moderate-income families get as much tax relief as the wealthy when they purchase health insurance.
- **Medicare Premium Supports**: Provide seniors with a risk-adjusted credit to purchase a Medicare Advantage-type plan in the private market. In addition, allow seniors to set aside funds into an account tax free to save for future medical needs.
- **Insurance across State Lines**: Premium costs could be lowered if Congress allowed residents of any state to purchase health insurance sold in other states, injecting competition into the local market in the form of policies without expensive mandates.
- Empower patients, especially the chronically ill, to manage more of their own care and more of their own health care dollars.

Making HSAs more Flexible. Allow workers save for sick days by making deposits throughout the year and then withdrawing funds from an HSA to replace income lost during unpaid sick leave. With a few small changes to federal law, Congress could increase access to HSAs for those who need them. The language of the current law excludes many workers from getting an HSA through their job. And many others — including many of those who have selected bronze plans through the state and federal health exchanges — don't realize their exchange plan qualifies for an HSA, because their insurers did not disclose that fact.

One way to allow more workers to save for sick days — while taking advantage of HSAs to cover higher, out-of-pocket medical copays (typical of bronze exchange and many employer plans) — is for Congress to expand opportunities to open an HSA. One proposal would allow individuals to open an HSA and deposit tax-free funds equal to their deductible. The Obama administration could also require exchange plans to disclose whether or not they are eligible for HSAs.

- **Continuity of Care**: In contrast to spending money on programs for which people's eligibility constantly changes, as with Medicaid and S-CHIP, a better strategy is to offer a subsidy to be applied to private insurance.
- **An Earned Income Health Insurance Credit**: Convert the Earned Income Tax Credit into a refundable, advanceable health insurance credit by requiring uninsured families to use the public subsidy to purchase health insurance.

NCPA Policy Recommendations

Give everyone a health savings account:

- Every individual should be able to deposit up to $200 into a tax-free universal health savings account (HSA) every month.
- Employers should be encouraged to automatically enroll their employees in a HSA.

Give all private health insurance the same tax break:

- Currently, the federal and state governments "spend" about $300 billion a year on tax subsidies for private insurance. The greatest subsidy is given to the highest income earners.
- Ideally this $300 billion should be redirected to provide a uniform, refundable tax credit of $2,500 per individual and $7,000 per family to purchase private insurance.
- Because the existing health care tax deduction would finance the tax credit, there would be no increase in federal spending.
- If the individual chose to be uninsured, the subsidy would be sent to a safety net agency in the community where the person lives.

Give people alternatives to Medicaid and S-CHIP:

- When people enroll in Medicaid and S-CHIP plans that pay low reimbursement rates they have far fewer options than private plans.
- 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.
- Use the federal funds that subsidize S-CHIP to make the $1,000 child tax credit refundable.
- Make the tax credit conditional on proof of any creditable insurance — employer plan, individual plan, S-CHIP, Medicaid and so forth.
- Encourage states to not expand Medicaid eligibility above 100 percent of the federal poverty level. This will allow those earning above poverty to purchase subsidized coveragee in the exchange.
- For those earning below poverty, allow states the flexibility to tailor their Medicaid programs to meet each state's unique needs using a block grant.