

Ensuring Access to Affordable Health Insurance

A Memo to President-elect Obama

Stuart M. Butler, Ph.D., and Nina Owcharenko

CHANGE
We
BELIEVE IN

HEALTH CARE

Every American should have freedom of choice in health care.



This product is part of the Health Care Initiative, one of 10 transformational initiatives in our Leadership for America campaign.

On health care reform, the American people are too often offered two extremes—government-run health care with higher taxes or letting the insurance companies operate without rules. Barack Obama and Joe Biden believe both of these extremes are wrong, and that's why they've proposed a plan that strengthens employer coverage, makes insurance companies accountable and ensures patient choice of doctor and care without government interference.

—Barack Obama, “Plan for a Healthy America: Barack Obama and Joe Biden’s Plan,” from barackobama.com

If you already have insurance, the only thing that will change under my plan is that we will lower premiums. If you don't have health insurance, you'll be able to get the same kind of health insurance Members of Congress get for themselves.

—Barack Obama, “Closing Argument” speech, Canton, Ohio, October 26, 2008

PRESIDENT-ELECT OBAMA, during the campaign you pledged to build a health care system in which Americans can be assured of access to affordable health insurance. You guaranteed Americans who already have insurance that nothing would change except that their coverage would be less expensive. You pointed to the health system that Members of Congress have as your model for expanding coverage. And you agreed that choice of doctor and care is a basic principle. These laudable themes struck a chord with Americans.

Achieving this widely supported vision will be challenging in these difficult economic and budget times. It will be politically difficult. It is



214 Massachusetts Avenue, NE
Washington, DC 20002
(202) 546-4400 | heritage.org

just 15 years since another Democrat with strong public support for health care reform—Bill Clinton—saw that support quickly evaporate when he crafted a partisan legislative proposal that departed from what Americans thought they had voted for.

In order to succeed, then, the legislation upon which you and Congress agree must be consistent with the principles of health reform that Americans believe they heard in your speeches. This means that your legislation should include the following important elements:

- **Use the consumer-choice system available to Members of Congress as a true model, not as a façade for government-run health care.** The system you and other federal employees have enjoyed, the Federal Employees Health Benefits Program (FEHBP), is not like Medicare or Medicaid. It is an employment-based system with important characteristics. Its “health insurance exchange” functions like a shopping mall for plans, making it easy for families to shop each year for plans and to have portable coverage. Plans range from managed care to health savings accounts. There is no standard, congressionally mandated benefits package, and there is no national health board, so Members of Congress can choose the benefits that are right for them. The FEHBP consists of truly competing private plans, with no “public plan” enjoying a sweetheart deal. And it has private options available throughout the nation that even the sickest employees can afford. You are to be applauded for citing this as a model of choice and competition, but you must make sure that Congress does not play bait-and-switch, talking about the FEHBP but enacting something quite different.
- **Create a level playing field of competing private plans and real choice, and do not allow a “public plan” to undermine your other commitments to Americans.** You spoke of including a government-sponsored “public plan” as one of the competing plans in your proposed health exchange, but there is no public plan in the FEHBP—and for good reason. There can be little doubt that if the government sets the rules for competition in an exchange and also runs one of the plans, the rules will be rigged to favor the public plan.

Moreover, employers who currently offer coverage could switch their workers to this plan, and millions of Americans would discover that their employers had ended their existing private coverage. That would be an unacceptable violation of your “no change” commitment. Indeed, recent estimates from the Lewin Group, a leading health econometrics firm, suggest that more than 22 million Americans would experience an unexpected change in coverage with a public plan in place.¹

- **Reform the tax treatment of health insurance to make it more equitable and efficient for taxpaying families.** There is wide and bipartisan agreement that the current tax relief for health insurance is poorly designed and exacerbates uninsurance. Today’s unlimited tax relief for employer-organized health insurance gives large breaks to executives and other highly paid employees but little or no relief for families without employment-based insurance or with only limited coverage at the place of work. The value of this “tax exclusion” is over \$200 billion, or about 10 percent of all the nation’s spending on health care.

Policy analysts across the spectrum would limit the tax exclusion and use the revenue to provide tax relief for those without tax help to make coverage more affordable. A sweeping proposal came from one of your top advisers, Jason Furman.² Senate Finance Committee Chairman Max Baucus (D–MT) recently discussed tax reform in his “white paper” on health coverage.³ Even Senator Hillary Clinton (D–NY) proposed a tax cap during the primaries. Converting part of the tax exclusion to a tax credit or similar tax relief for taxpayers without adequate insurance is a critical element of reform and is similar to the FEHBP’s subsidy for premiums.

1. The Lewin Group, *McCain and Obama Health Care Policies: Costs and Coverage Compared*, 2008, Appendices B-10 and B-11, at <http://www.lewin.com>.

2. Jason Furman, “Reforming the Tax Treatment of Health Care: Right Ways and Wrong Ways,” preliminary draft, prepared for “Taxes and Health Insurance: Analysis and Policy,” sponsored by Tax Policy Center and American Tax Policy Institute, February 24, 2008, at http://www.taxpolicycenter.org/tpccontent/healthconference_furman.pdf.

3. Senator Max Baucus, Chairman, Committee on Finance, U.S. Senate, Call to Action: Health Reform 2009, November 2008, at <http://finance.senate.gov/healthreform2009/finalwhitepaper.pdf>.

- **Use incentives and perhaps automatic enrollment in private plans, not government mandates, to foster wider coverage.** You spoke eloquently during the primaries of the unfairness of forcing families to purchase coverage they couldn't afford. You also challenged your primary opponents to say which police powers they would use to enforce a mandate. As you explained, the main reason why working Americans are uninsured is that they cannot afford coverage.

But inertia leads some other Americans who can afford coverage not to acquire it, in many cases because they know they can rely on the taxpayer-supported emergency room. For those Americans, you should explore the idea of "auto-enrollment" in private plans, in which the default is that working families are automatically signed up and must actively decline coverage if they don't want it. It turns out that default enrollment sharply increases sign-ups for pension plans, and you supported legislation to make it easier and affordable for firms to institute such enrollment procedures.

You should therefore urge your staff and Congress to explore the effectiveness of a combination of automatic enrollment and financial incentives to widen private coverage, and not to draw up plans for more mandates or expansions of Medicaid or other public programs.

- **Refocus employment-based coverage to promote family control and choice rather than mandating employers to offer government-defined coverage.** There are large gaps in the system of employer-sponsored coverage. Many smaller firms do not offer coverage at all, and others offer coverage that many of their workers don't want or can't afford. The solution to this is not to mandate that firms offer an expensive, comprehensive plan determined by Congress or else pay a tax. That would mean one-size-fits-all coverage while changing coverage that many workers are happy with—which you pledged not to do. Moreover, employer mandates and taxes hide the cost for employees because firms just cut back on cash income.

You should instead take steps to enable families to choose and retain their health coverage from job to job, with the employer facilitating this through such things

as arranging payroll deductions, much like their role in arranging 401(k) retirement plans. You could foster this with health tax breaks for employees who opt for plans with benefits they like that are offered through health exchanges, just as Members of Congress do.

- **Say "no" to the Daschle Federal Health Board.** Even worse than congressionally mandated benefits would be mandatory coverage designed by the powerful Federal Health Board proposed by your nominee for Secretary of Health and Human Services, former Senator Tom Daschle (D-SD). Daschle envisions a remote board of "experts," perhaps modeled on the Federal Reserve Board. This board, he says, would be "insulated from politics. Congress and the White House would relinquish some of their health-policy decisions to it." Shielded from public opinion and from representative government, it would have "teeth," says Daschle, potentially deciding such things as premiums and appropriate services, and "all federal programs would have to abide by [its recommendations]." He also imagines that the board would "link the tax exclusion for health insurance to insurance that complies with the Board's recommendations."⁴

Tom Daschle's Federal Health Board would have enormous power over medical decisions affecting every American. This is unacceptable, and would break your pledge to give Americans choice. You should reject his idea.

- **Take bold action to allow states to experiment with better ways of reaching the nation's health coverage goals rather than imposing a national plan on states and families.** Our system of federalism is intended to allow states to determine the best ways to achieve objectives we share as a nation, thereby appropriately limiting the role of the central government and fostering creative diversity. We value that principle of federalism in such areas as education and welfare. It is important to utilize it fully in health care. Thus, rather than try to create a Washington-designed system

4. Tom Daschle, with Scott S. Greenberger and Jeanne M. Lambrew, *Critical: What We Can Do About the Health-Care Crisis* (New York: Thomas Dunne, 2008), pp. xii, 179.

with a national health exchange and impose it on states, businesses, and families, you should instead make greater use of the power of federalism.

The better course would be for Washington to clarify the broad goals of a health system and to encourage states to devise the best ways to achieve those goals. That can be done in a bold way by making it possible for states to obtain approval from Congress for significant changes in existing laws and programs—by granting the states waivers from laws, not just regulations—so that they can restructure programs and try creative ways of expanding affordable coverage. Bipartisan bills have already been introduced in both houses of Congress to accomplish this.⁵ Supporting the federalism approach would give real meaning to the commitment in your campaign proposal to give states the flexibility to experiment with better ways to accomplish national goals for health care.

- **Be bipartisan when working with Congress.**

President Bill Clinton made a critical mistake in failing to draw ideas and support from both sides of the aisle. Working only with his own party and relying on only

a narrow range of outside experts, he rejected sensible ideas, and his final proposals were out of sync with the public. You must not repeat that mistake. In such areas as the tax treatment of health care, federal–state cooperation, insurance reform, and other critical pieces of health reform, there are well-developed bills already before Congress, several of them bipartisan. Outside of Congress, there has been an unusually thoughtful, bipartisan discussion on coverage. And there has been important state experimentation in both red and blue states. You should build on these important developments, not ignore them.

Conclusion

While Americans express frustration with our current health system and want action to make coverage more dependable and affordable, they also want the nation’s health system to retain important principles and features. Americans demand choice, for instance, and if they are content with the coverage they have, they do not want it disrupted. Moreover, they resist the idea of a standardized system being imposed on them from Washington.

Millions of Americans voted for you because they believed your words meant that you shared these principles. You now have the opportunity to craft health legislation that abides by these principles and is compatible with your pledge.

5. These bills include H.R. 506, co-sponsored by Representatives Tammy Baldwin (D–WI) and Tom Price (R–GA); S. 325, co-sponsored by Senators Jeff Bingaman (D–NM) and George Voinovich (R–OH); and S. 1169, co-sponsored by Senators Russell Feingold (D–WI) and Lindsey Graham (R–SC).

Stuart M. Butler, Ph.D., is Vice President for Domestic and Economic Policy Studies, and **Nina Owcharenko** is Senior Policy Analyst in the Center for Health Policy Studies, at The Heritage Foundation.

This paper is also available online at:
www.heritage.org/Research/HealthCare/sr27.cfm