



The Republican Health Reform Proposal: A Destructive Alternative

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After nearly a year of hearings, discussion, and debate, House Republicans have issued an eleventh-hour alternative proposal to reform our nation's health care system. This proposal falls far short of achieving the vision for reform that America's families need and that is embodied in the House bill, the Affordable Health Care for America Act. It fails to address the key concerns of American businesses and families: controlling the cost of coverage and ensuring stability in care. Instead, it recycles a set of old, discredited ideas that will move our health care system in the wrong direction, shifting more of the burden of risk to individuals and employers and allowing insurers to reap even greater gains.

Key Concerns that the Republican Alternative Fails to Address

■ Pre-Existing Health Conditions

The Problem:

Under current law in many states, insurers are free to charge people who have pre-existing health conditions more for coverage in the individual market or to deny them coverage entirely. Further, when individuals are able to buy policies, the policies may exclude coverage for their pre-existing conditions, either for a set period of time or forever. This leaves the millions of Americans with common conditions such as asthma and arthritis at risk should they need to seek coverage on their own.

What will the House bill and the Republican alternative do about this problem?

- **The Affordable Health Care for America Act** eliminates these unfair practices, requiring that insurers offer coverage to all Americans.
- **The Republican alternative** does not require that insurers offer coverage to all Americans regardless of health status, it does not require that plans cover pre-existing conditions, and it does not limit an insurer's ability to charge individuals who have pre-existing conditions more for coverage.

■ Guaranteed Value for Premium Dollars

The Problem:

Currently, health insurance companies are generally free to decide how much of each dollar that is collected in premiums will be spent on health care versus how much will go toward marketing, paperwork, and profits. This results in hundreds of billions of dollars being spent each year on non-medical costs. Moreover, regulations governing whether annual increases in premiums must be reviewed and approved to be reasonable vary widely from state to state.

What will the House bill and the Republican alternative do about this problem?

- **The Affordable Health Care for America Act** clamps down on these insurance company practices, creating rules that would require insurers to spend a minimum percentage of premium dollars on health care and establishing a process for reviewing premium increases.
- **The Republican alternative** does nothing to ensure value for your premium dollar. In fact, the Republican alternative undermines existing state authority to review premium increases, freeing insurance companies to substantially raise their rates year after year.

■ Help for Small Businesses

The Problem:

Small business owners often struggle to find affordable health coverage for themselves and their employees, and even one sick employee can further drive up their costs. As a result, less than half (46 percent) of companies with fewer than 10 employees offer health insurance to their employees. In contrast, the vast majority (95 percent) of companies with more than 50 employees offer health coverage.¹

What will the House bill and the Republican alternative do about this problem?

- **The Affordable Health Care for America Act** offers small businesses a tax credit for up to 50 percent of the cost of health coverage, helping to make quality coverage affordable. Small businesses would be able to buy coverage in a new, regulated market with other small businesses, helping to leverage their buying power and control costs.
- **The Republican alternative** neither provides assistance with the cost of coverage to small businesses nor protects them from steep premium increases.

■ Help for Middle-Class Families

The Problem:

The rising cost of health insurance premiums has made coverage unaffordable for many hardworking American families. Premiums have risen dramatically over the last decade. For example, between 2000 and 2009, premiums for job-based family coverage rose 4.9 times faster than median worker earnings.²

What will the House bill and the Republican alternative do about this problem?

- **The Affordable Health Care for America Act** provides direct assistance to middle-income families through premium subsidies and assistance with cost-sharing. Under the Act, a family of four with income up to \$88,200 receives assistance with premiums and cost-sharing.
- **The Republican alternative** fails to provide help with premiums and cost-sharing for middle-class families.

■ Reducing the “Hidden Health Tax”

The Problem:

When people without health insurance seek medical care, they struggle to pay as much of their bills as they can. Few, however, can afford the full cost of care. Government and charity programs pick up a share, but a portion—known as “uncompensated care”—remains unpaid. To cover the cost of this uncompensated care, health providers charge higher rates to insurance companies, and these increases are then shifted to those who have private insurance through higher premiums. This creates a “hidden health tax” that added more than \$1,000 to family premiums in 2008.³

What will the House bill and the Republican alternative do about this problem?

- **The Affordable Health Care for America Act:** By expanding coverage to 36 million Americans, the Affordable Health Care for America Act substantially reduces the amount of uncompensated care and helps to eliminate the hidden health tax.⁴
- **The Republican alternative** fails to expand coverage to the vast majority of uninsured Americans. In fact, it would cover only 3 million Americans, leaving 52 million uninsured in 2019.⁵ As a result, the hidden health tax will continue to add to the cost of premiums for America’s families and employers.

■ Protection from High Health Care Costs

The Problem:

Insurance—car, home, and health alike—is designed to protect families from the costs associated with unexpected events. However, as premiums for health coverage have risen, plans with higher out-of-pocket costs have become increasingly common. When illness strikes, people enrolled in such plans can face catastrophic financial consequences. In fact, nearly two-thirds (62.1 percent) of bankruptcies in 2007 were due, at least in part, to medical reasons.⁶

What will the House bill and the Republican alternative do about this problem?

- **The Affordable Health Care for America Act:** In order to provide protection from the high cost of unexpected health care costs, the Affordable Health Care for America Act requires that all health plans include annual caps on out-of-pocket costs. These caps would be set at \$5,000 for an individual and \$10,000 for a family, and the caps would be reduced for moderate-income families who are eligible for subsidies. In addition, the Act creates a regulated marketplace where consumers can purchase their choice of standard plans.
- **The Republican alternative** includes no caps on out-of-pocket costs.

Proposals in the Republican Alternative

Expansion of Health Savings Accounts

■ What Is an HSA?

Health savings accounts (HSAs) are tax-free savings accounts that can be used only with high-deductible health plans, not with traditional insurance. An individual with an HSA places money in a tax-free account to pay for current and future health services. The basic premise is that an individual will save money in his or her tax-free HSA to pay for the cost of health services until the deductible is met. The Republican alternative promotes HSAs and encourages their further growth by allowing consumers to use pre-tax dollars from their HSAs to pay for premiums as well as other health care costs.

Why Are HSAs a Problem for Consumers?

- HSAs create incentives to delay or forgo care, especially primary care. With an HSA and a high-deductible plan, an individual must spend a substantial share out of pocket on health care before his or her insurance plan begins to cover these costs. This encourages individuals to delay or forgo necessary care, especially if they have moderate incomes.⁷ This often increases costs in the long run because people are sicker when they finally seek care.
- HSAs provide a greater advantage to higher-income consumers. Each dollar placed in an HSA saves an individual in the 35 percent tax bracket 35 cents, while it saves a person in the 10 percent bracket only 10 cents. This may make HSAs an appealing choice for people in high tax brackets, but they are a poor choice for the people and families who need help the most.
- HSAs encourage adverse selection. HSAs attract healthier individuals who do not expect to face high health care costs. As healthier and wealthier individuals move into HSAs, sicker and poorer people are left in traditional health insurance plans, and their costs are driven up.
- The Republican proposal to let consumers use money from their HSAs to pay their premiums increases the tax benefits of HSAs for those with higher incomes. This creates an even stronger incentive for higher-income individuals to move into HSAs, which further undermines the health insurance system.

Undermining State Consumer Protections

■ How Do State Consumer Protections Work?

In our current insurance system, the task of protecting consumers who purchase coverage through the individual and small group markets is, by and large, left to the states. States are free, for example, to set requirements for what benefits must be covered, how much insurers can charge, and whether insurers are free to deny coverage to certain people. These laws vary widely from state to state, and some states have much stronger consumer protections

than others. Two proposals in the Republican alternative—Interstate Health Insurance and Association Health Plans—will allow insurance companies to operate in a given state without complying with some or all of a state’s health insurance rules and consumer protections.

Why Are these Proposals a Problem?

- They allow insurers to circumvent state consumer protections. Under these proposals, insurers would be free to select the state where they wish to sell insurance. As a result, insurers are likely to choose to sell plans in the states with the weakest consumer protections.
- They make it more difficult for consumers to obtain adequate coverage. Allowing insurers to escape state benefit mandates will make it more difficult for individuals and small businesses that are seeking coverage to find plans offering important benefits such as maternity and diabetes care.
- They encourage adverse risk selection. While some younger, healthier consumers may obtain lower premiums by purchasing across state lines, older individuals, women, and people with health conditions would certainly face higher premiums.
- They create an opportunity for insurers to defraud consumers. Allowing insurers to sell across state lines creates an array of enforcement and oversight issues, undermining state regulators’ ability to protect their residents and creating opportunities for insurers to take advantage of consumers.

Wellness Plans

■ What Are Wellness Plans?

Currently, federal rules allow employers to offer so-called “Wellness Plans”—group health insurance plans that modify premiums and cost-sharing by up to 20 percent based on whether or not a member reaches a “wellness goal,” such as lowering cholesterol or decreasing body mass index. Under these rules, consumers may be subject to significant increases in their health care costs, making coverage or care much less affordable. The Republican alternative increases this burden, allowing plans to modify premiums and cost-sharing by up to 50 percent.

Why Are Wellness Plans a Problem?

- While promoting wellness and good health is important, a proposal that penalizes people for having health problems will make coverage unaffordable for those who need health care the most.
- Higher premiums threaten the budgets of low- and moderate-income families. The proposed 50 percent “wellness” surcharge would have amounted to about \$2,400 for individual coverage in a typical job-based group plan last year. That amounts to more than one-fifth of the total annual income for an individual at the federal poverty level, leaving substantially less money for necessities such as food and housing.

- Increasing consumer health costs decreases the likelihood that people, particularly those with low incomes, will obtain necessary care. Even relatively small increases in copayments lead low-income people to forgo necessary services or prescriptions. The proposed wellness plan surcharges on premiums and cost-sharing would create a difficult, possibly insurmountable, barrier for low-income people seeking health care.
- The methods used to monitor achievement in wellness programs can be very invasive of employee privacy. Workers are often subjected to blood tests, urine tests, cheek swabs, and other intrusive tests by their employers, making them uncomfortable and even concerned about discrimination. However, if their only other option is to face health care costs that are up to 50 percent higher, many workers will feel forced to submit to these invasive tests.
- Most employer wellness programs that charge people higher costs for failure to achieve health goals are not based on medical or scientific evidence. Therefore, it is unknown whether or not such programs are actually capable of improving the health of participants. It is unfair to force people to pay more by implementing a program that has not been proven effective in improving health status.

Medical Malpractice Reform

While medical malpractice reform is needed, the Republican alternative proposes a rigid solution that fails to protect the interests of consumers. Instead of testing new approaches that would lower costs and reduce incentives for doctors to practice defensive medicine, this proposal offers relief to providers at the expense of consumers. We need a thoughtful, balanced approach that provides consumers with recourse from clear cases of medical malpractice but that discourages frivolous lawsuits and that experiments with alternative methods of dispute resolution.

Endnotes

¹ Kaiser Family Foundation and Health Research and Educational Trust, *Employer Health Benefits Annual Survey: 2009* (Washington: Kaiser Family Foundation, September 2009).

² Families USA calculations based on Medical Expenditure Panel Survey (MEPS) and American Community Survey (ACS) data. Data are on file with Families USA.

³ Kathleen Stoll and Kim Bailey, *Hidden Health Tax: Americans Pay a Premium* (Washington: Families USA, May 2009).

⁴ Congressional Budget Office, *Preliminary Analysis of H.R. 3962, Affordable Health Care for America Act*, October 29, 2009, available online at <http://www.cbo.gov/ftpdocs/106xx/doc10688/hr3962Rangel.pdf>.

⁵ Congressional Budget Office, *H.R. 3962, Affordable Health Care for America Act (Republican substitute)*, November 4, 2009, available online at <http://www.cbo.gov/ftpdocs/107xx/doc10705/hr3962amendmentBoehner.pdf>.

⁶ David U. Himmelstein, Deborah Thorne, Elizabeth Warren, and Steffie Woolhandler, "Medical Bankruptcy in the United States, 2007: Results of a National Study," *The American Journal of Medicine* 122, no. 8 (August 2009): 741-746.

⁷ Karen Davis, *Will Consumer-Directed Health Care Improve System Performance?* (New York: The Commonwealth Fund, August 2004); Paul Fronstin and Sarah Collins, *Early Experience with High-Deductible and Consumer-Driven Health Plans: Findings from the EBRI/ Commonwealth Fund Consumerism in Health Care Survey* (Washington: Employee Benefit Research Institute, December 2005).



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