
Reforming the US health care system

McCain's plan shows more promise than Obama's

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HEALTH care reform seems poised to take centre stage in the upcoming presidential election in the United States. Not surprisingly, American presidential hopefuls Barack Obama and John McCain have proposed radically different approaches to health care reform. Of the two, it is McCain's proposal that would completely replace the current system with a fairer, more efficient one, providing a much better chance of insuring the uninsured and controlling health costs.

The Obama plan

A key goal of Barack Obama's health proposal is "universal coverage." Yet, in contrast to Hillary Clinton, Obama's plan would not require individuals to purchase coverage, other than for their children. Although Obama's plan would create new ways for people to obtain health insurance, based on reasonable assumptions the number of uninsured would rise, not fall.

Taxing labor

Obama's plan would subject all employers to a "pay-or-play" mandate, imposing a tax on those who do not provide health insurance for their employees. Following a recent Commonwealth Fund analysis that many believe reflects Obama's objectives (Schoen et al., 2008), employers would be forced to pay at least 75% of the premium for a minimum benefits package. Failing that, employers would

have to pay an additional 7% payroll tax of up to \$1.25 per hour per employee. Basic economics implies that such a payroll tax would be almost completely borne by workers. Thus, Obama's criticism of Hillary Clinton applies to himself as well: he would try to force people to buy something they cannot afford, and then tax them when they don't buy it, leaving them worse off than before.

Encouraging employers to drop health insurance coverage

Those who do not get insurance through an employer would be able to buy it through a National Health Insurance Exchange. Under the Commonwealth proposal, the subsidized premium would be limited to 5% of income for low-income families and 10% for everyone else. Given an average cost of employer-based coverage of about \$12,000 for a family (KFFHRET, 2007), families with incomes of up to about \$63,000 would be better off if their employers dropped their current health plan and paid them higher wages instead, paid Obama's pay-or-play tax (along with income and payroll taxes), and let employees use their additional after-tax income to buy their own insurance in the Exchange.

Encouraging the healthy to be uninsured

Why pay expensive premiums for health insurance if you do not have any health problems? Insurers participating in the Exchange would be required to sell policies to all comers (guaranteed issue), and

charge the healthy the same premium they charge the sick (community rating). This would give people a perverse incentive to avoid buying insurance and paying premiums until they get sick.

Encouraging others to over-insure

Obama's plan would require health plans to include a package of minimum benefits, but apparently there would be no maximum. Once people reached their maximum premium limit, the marginal cost of buying additional coverage would be zero, creating perverse incentives for people to over-insure at the taxpayers' expense.

Encouraging special interests

Special interest lobbyists have pushed for state regulations that would require insurers to cover all manner of non-essential services, including acupuncture, in-vitro fertilization, and marriage counseling. The resulting premiums would price as many as one-quarter of the uninsured out of the market. Obama's federally imposed minimum benefits package would attract all manner of special interests trying to influence the details of the package.

Substituting government insurance for private insurance

Obama would also expand enrollment in Medicaid and the State Children's Health Insurance Plan (SCHIP). Obama health adviser David Cutler estimates that ev-

ery extra dollar spent on Medicaid leads to a 50- to 75-cent reduction in spending on private health insurance (Cutler and Gruber, 1996). For SCHIP, the Congressional Budget Office projects a crowd-out rate of 25% to 50% (Duchovny and Nelson, 2007); private estimates peg it at 60% (Gruber and Simon, 2007).

The McCain plan

PRIVATE health insurance is currently subsidized by excluding employer-paid premiums from income and payroll taxes. This subsidy, which amounts to more than \$200 billion a year, is arbitrary and unfair. For example, there is virtually no tax relief for people who purchase their own insurance. McCain would replace this system with a uniform subsidy applicable to all insurance, regardless of how it is purchased.

Leveling the playing field

Under the McCain plan, everyone would be treated alike, regardless of income or job status. His proposal would not raise taxes; nor would it lower them. Employers would no longer be able to buy insurance with pre-tax dollars, and their premium payments on behalf of workers would be taxable income to the employees, just like wages. However, every individual would get a \$2,500 credit (\$5,000 per family) to be applied dollar-for-dollar against taxes owed. The McCain proposal would allow people who must buy their own insurance to receive just as much tax relief as people who obtain insurance through an employer.

Creating a national marketplace

The McCain plan would also allow people to buy insurance across state lines. This would allow people to purchase insurance under more consumer-friendly regulatory regimes and create a competitive, national market for health insur-

ance. Today, monthly health insurance premiums can vary by hundreds of dollars from state to state with much of that difference being driven by state regulations and coverage mandates.

Helping the middle class

The McCain plan would provide much more help to low- and average-income families than the current system does. These families would get just as much tax relief to purchase health insurance as the very rich. Under the current system, families earning more than \$100,000 a

solution. However, McCain's proposals have a much better chance of controlling costs, raising quality, and improving access than the proposals made by any other serious presidential contender.

References

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McCain's plan would subsidize the core insurance that everyone has, leaving them free to purchase additional coverage with after-tax dollars. Everyone would have an incentive to compare the value of extra health benefits to the value of other things money can buy.

year get four times as much tax relief as families earning \$25,000 or less. The biggest subsidy goes to those who least need it, and who probably would have purchased insurance anyway. By contrast, Obama's plan would continue the current practice of giving the highest subsidies to the rich (through the tax system) and the poor (through spending programs).

Encouraging cost control

McCain's plan would subsidize the core insurance that everyone has, leaving them free to purchase additional coverage with after-tax dollars. Everyone would have an incentive to compare the value of extra health benefits to the value of other things money can buy.

The United States health care system is in need of reform and there is no easy

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