President Bush Joins The Healthcare Reform Debate

BY JANE H. WHITE

"We must reform our health care system. . . . We must bring costs under control, preserve quality, preserve choice, and reduce the people's nagging daily worry about health insurance." With this statement, President George Bush joined the healthcare reform debate in his January 28, 1992, State of the Union address. By February 6 he released his program for "comprehensive health reform," albeit without endorsing any specifics for financing it. And on March 9 the Bush administration strengthened its healthcare financing expertise and underscored its commitment to healthcare as a domestic policy issue with the staff addition of health economist Gail Wilensky as deputy assistant for health and welfare policy. Wilensky served the past two years as administrator of the Health Care Financing Administration (HCFA) and is widely known for her research on the uninsured.

These steps, which many Washington analysts had not foreseen just months earlier, reflected the political necessity of staking out a stand on healthcare during a potentially volatile election year. Many thought Bush would not engage the healthcare debate until 1993, after what had been predicted to be an easy reelection. However, the persistent recession, the president's plummeting popularity (especially on domestic issues), and the surprise emergence of healthcare as a political issue (with strong middle-class support) converged to convince the White House that it had better address the healthcare issue now.

For years, state, congressional, and healthcare leaders have decried the president's lack of attention to and leadership on healthcare reform. Now that he has stuck a somewhat reluctant toe into the water, however, the politics of election year posturing almost guarantee no action. Instead, interest group stakes are even higher. And politicians up for election are eager to show constituents their commitment to healthcare, even though they do not want to raise money (taxes) to pay for it.

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Political Posturing

A classic example of the political strings attached to the current healthcare debate came when the White House "stopped the press" on Bush's fiscal year *1993* budget to rewrite the portion on healthcare just one day before his State of the Union Address. The budget document provided details about Bush's proposed health plan that key Republican members of Congress were not prepared to support. The White House had told Congress that the plan's details would not be released to the public until early February, after suitable consultation with the Republican congressional leaders.

A key detail that the GOP leaders found unacceptable was a cap on the tax subsidy for the health insurance benefits of high-income workers. Under the current system, employers can provide the benefit of health insurance to their employees with pretax dollars. In essence, all workers who receive employer-provided health plans are gaining this health coverage via a tax subsidy from the U.S. government. The higher the income and the more generous the insurance plan, the greater the subsidy.

Many health policy analysts, such as Stanford economist Alain Enthoven and University of Pennsylvania economist Mark Pauly, have long called for the dissolution of the insurance tax subsidy as a thorn in the side of a truly competitive market and a source of major revenue to broaden access to healthcare.[1] Nevertheless, in an election year, such a cap on the insurance subsidy amounts to raising taxes on a segment of the population. Congressional Republicans, led by respected healthcare leader Rep. Bill Gradison, R-OH, were adamantly opposed to the measure. Republican pollster and political analyst Bill McInturff noted, "The tax cap was the single worst idea of the Republican party [for political reasons]. . . . Thank God for Gradison's credibility. When he went berserk, they couldn't say, this is just Newt Gingrich."

A January 29 *Washington Post* editorial

lamented the political demise of the tax cap: "One of the brighter budget balloons the administration floated this year has apparently been shot down. The good idea was to curb a major tax 'entitlement' by capping and/or phasing out or down for the better paid the exclusion from employee income of employer-paid health insurance premiums. The familiar exclusion now costs the government $33 billion a year, not all of it justified."[2] If the measure had remained in the president's plan, however, Republicans up for reelection would have been skewered for raising taxes.

When Bush did release the details of his plan in February, he passed the sticky problem of financing on to Congress. He offered a variety of "options" Congress could consider in drafting legislation based on his plan. This neatly gives him credit for paying attention to the healthcare needs of Americans while absolving himself of the touchy political problem of deciding how to pay for what will surely be an expensive tab.

The President's Plan

The president's proposal, set out in a 94-page white paper, draws heavily on proposals set forth by economist Pauly and the Heritage Foundation, a conservative think tank. The plan touts the merits of a competitive market-based system and has as a guiding principle the notion that reform should "build on the strengths of the U.S. system while addressing its weaknesses. Reforms should not destroy its incentives for choice, quality, and innovation."[3] (See **Box**.)

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Tax Credits To help moderate- and low-income Americans gain access to health insurance, Bush's plan offers a tax credit or deduction for insurance costs of up to $1,250 for individuals, $2,500 for married couples, and $3,750 for families of three or more. If the individual, couple, or family earns less than the taxable income, they would receive a "credit," or voucher, toward the purchase of health insurance. Those with taxable earnings of up to $50,000 for an individual, $65,000 for a couple, and $80,000 for a family could choose between receiving the credit or deducting their health insurance costs from their income taxes, up to the above-specified limits.

A number of caveats apply to the tax credit–deduction concept. Persons who receive healthcare through federal programs such as Medicare or Medicaid do not qualify. As one's income rises above the taxable level, the percentage of insurance credit available would be phased down. For example, if one earns at or above 150 percent of the tax-filing threshold, the credit would be

BUSH'S HEALTHCARE PLAN: SOME FEATURES

Expanding Access to Healthcare

- A health insurance credit or tax deduction would be available to low- and moderate-income persons to ensure access to affordable healthcare coverage.
- States (along with private insurers) would develop a basic health insurance benefit package that equals the value of the health insurance tax credit.
- No group could be denied health insurance coverage.
- Virtually all preexisting condition clauses would not be allowed.
- Renewal of health insurance policies would be guaranteed.
- Health insurance networks (HINs) would be formed to help small firms gain the purchasing power of large groups, thus lowering premium and administrative costs.
- Current state laws that mandate a variety of health insurance benefits would be limited to lessen the regulatory burden and costs to insurers.
- Premium levels would be regulated and the current insurer practice of "experience" rating would be eliminated in favor of "community" rating to make insurance more affordable.

Cost-Containment Strategies

- Encouraging the use of managed (or, as the administration prefers to call it, "coordinated") care
- Reforming medical malpractice and antitrust liability laws
- Reducing administrative costs—the "red tape" of paperwork—by standardizing claims procedures and promoting electronic billing
- Improving consumer information about the cost and quality of providers to encourage intelligent "comparison shopping"
- Emphasizing the importance of preventive healthcare—a key message that Department of Health and Human Services Secretary Louis Sullivan has touted during his tenure in the Bush administration

phased down to 10 percent of its full level ($125 for individuals, $250 for couples, and $375 for families). Both the credit and deduction would be phased out in the last $10,000 of the income range. Also, if employers pay part of the health premium cost for an individual or family, both the credit and deduction would be reduced by that amount.

In an effort to offer increased help to self-employed persons, the plan allows them to deduct the full cost of their health insurance premiums. Current law allows only a 25 percent deduction off self-employed income taxes.

Bush's plan estimates that 95 million Americans would benefit from the tax credit–deduction. The Congressional Budget Office (CBO) Director Robert Reischauer presented his agency's analysis of the plan at a March 4 House Ways and Means Committee hearing: "The president's proposal would offer assistance to the vast majority of people who do not currently have health insurance, and this assistance would be targeted toward people with low and low-middle incomes." CBO estimates that of the 19.6 million "tax units" (individuals, couples, or families) who were uninsured in 1989, about 12.5 million (two-thirds) would be eligible for the full tax-credit amount and most of the remainder could qualify for a partial tax credit or could take the tax deduction. About 300,000 of the uninsured "tax units" had incomes that were too high to qualify for the president's tax subsidy.

CBO's analysis pointed to several potential problems with the tax plan. Reischauer predicted that a "substantial number of people [who would qualify for only a partial tax subsidy] would not obtain insurance in response to the new subsidy." The high cost of insurance could prove prohibitive for such people. In addition, "the level of the maximum tax credit appears to be substantially lower . . . than the amount needed to buy typical health plans . . . in today's market," Reischauer noted.

Insurance Market Reforms Bush's plan offers a variety of insurance market reforms to broaden access to healthcare and lower costs while building on the current system (see **Box**). "We should reform and buttress markets where necessary and enhance efficiency," testified Wilensky at a March 5 House Ways and Means Committee hearing. "This approach will foster the technological innovation and diversity Americans want in their healthcare system. The alternative—abandoning the incentive approach in a major sector of our economy—is untenable."

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Insurance representatives at the March 5 hearing praised Bush for joining the debate and supported most of his proposals. When pushed during questioning, however, Blue Cross and Blue Shield Association President Bernard Tresnowski admitted, "Frankly, I don't think it goes far enough to deal with the problems we have here." He cited a limited commitment to deal with the problem of rising costs.

Cost Control The president's plan sets out a laundry list of cost-control mechanisms (see **Box**), many of which are viewed by health policy analysts as tinkering around the edges. CBO's Reischauer argued, "Although a number of cost-containment strategies are proposed, most of them would rely on voluntary responses to relatively small financial incentives that would probably not have much impact. A few . . . could actually raise costs." He continued, "These proposals . . . are unlikely to slow the rate of health spending."

In response to CBO's analysis of the president's plan, HCFA prepared a document to counter any negative findings. "CBO has underestimated the reductions in costs and cost growth that would occur. . . . CBO, focusing on individual elements, has not recognized the interactive effects of the President's plan, the synergy of the entire comprehensive plan."[4]

In its white paper, the administration projects that, systemwide, the plan would save $394 billion through 1997. Other analysts have debated this figure as wishful thinking. CBO's Reischauer commented that "these savings would, however, be offset by the increased spending for healthcare that would result from the expanded access to insurance."

Modifying Medicaid and Medicare Bush's plan also sets out some modifications to current federal health programs. For Medicaid, the federal-state insurance program for the poor, the administration proposes replacing the federal share of spending on acute care for the nonelderly with a prospective per capita payment. This payment would vary by state. States would also be encouraged to redesign their healthcare systems for the poor. States could combine their Medicaid funding with the new tax credit in a new plan for their

low-income citizens or keep the two programs separate.

For Medicare, the federal program for the nation's elderly, the president proposes reducing the current disproportionate-share adjustment for Medicare payments to hospitals that treat large numbers of poor elderly. The argument is that the expanded healthcare coverage under the plan would result in less uncompensated care for hospitals. The plan also proposes reducing Medicare's indirect medical education adjustment to hospitals and redirecting the payments for direct medical education to emphasize primary care programs.

Hospital and other healthcare leaders have responded with alarm to the proposals for Medicare and Medicaid. The guarded optimism of healthcare leaders in response to Bush's somewhat more generous fiscal year 1993 healthcare budget proposal in January was quickly quashed in February with his proposed healthcare plan. The Medicare disproportionate-share and medical education payments emerged unscathed in the budget proposal, only to be tapped in the president's plan as a potential source of savings.

"Instead of health reform, the president's plan offers yet another financial shell game," said American Hospital Association President Richard Davidson in testimony March 4 before the House Ways and Means Committee. "Hospitals and patients have already been victims of this shell game. It's time for real and meaningful reform," he continued.

Some Reactions

Most healthcare leaders and policymakers credit the president for joining the healthcare reform debate. "The fact that he engaged the debate is more significant than the plan itself," said Catholic Health Association lobbyist Jack Bresch. However, many have expressed frustration that the plan does not go far enough to guarantee access to healthcare for all Americans, nor does it significantly control the spiraling growth in costs.

The rub lies in the underlying premise of how the ideal healthcare system should be structured. The Bush plan builds on the current market-based system and eschews a large government role. Wilensky described it this way: "This issue embraces the age-old public finance questions of who will pay and how much they will pay. President Bush believes the government should focus its responsibilities on protecting the most vulnerable members of the population. The government should not provide or finance healthcare for people and businesses who can shoulder the responsibility themselves. We rely on a compassionate, but appropriately limited, role for government in the healthcare system."

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Many healthcare analysts question this premise. Speaking on a special edition of the television program "Nightline" that coincided with the release date of Bush's plan, *New England Journal of Medicine* Executive Editor Marsha Angell made an impassioned plea to reconsider the direction for healthcare reform. "Unlike any other country in the Western world, we treat healthcare like a market commodity. We don't treat it as a social service. The incentive [in a market-based system] is to expand profit, and the patient only gets whatever he—or his insurance company—can pay for. This is a heartless system."

Nevertheless, Bush adamantly opposes the larger governmental role required in other prominent proposals such as the single-payer/Canadian-type plan or the "play-or-pay" plan, which requires employers to provide health insurance or contribute to a pool to cover the remaining uninsured. In his view, such proposals would mean higher taxes, rationed care with long lines, loss of jobs, and indifferent service. With the unveiling of his market-based healthcare reform plan, Bush has set out a battle plan and drawn his line in the sand. At a minimum, he has engaged the debate. □

NOTES

1. Alain Enthoven, "A New Proposal to Reform the Tax Treatment of Health Insurance," *Health Affairs*, Spring 1984, pp. 21-39; Alain Enthoven, "Health Tax Policy Mismatch," *Health Affairs*, Winter 1985, pp. 5-14; Mark Pauly et al., "A Plan for 'Responsible' National Health Insurance," *Health Affairs*, Spring 1991, pp. 5-25.
2. "Who Pays for Health?" *Washington Post*, January 29, 1992, p. A20.
3. The White House, *The President's Comprehensive Health Reform Program*, Washington, DC, February 6, 1992, p. 5
4. Health Care Financing Administration, "Comments on the CBO Analysis of the President's Comprehensive Health Reform Plan," presented with testimony on March 5, 1992, before the House Ways and Means Committee.