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No Health Care Reform Is Better Than Bad Reform

by Norman B. Ture and Stephen J. Entin

Health care reform is at a critical stage. Congressional leaders are trying to devise separate bills that can pass the House and the Senate. The bills will try to expand health insurance coverage while containing medical costs, a virtual impossibility.

The House bill is likely to include employer mandates that must reduce cash wages or either employment. Both the House and the Senate bills will likely contain tax hikes on cigarettes to finance insurance subsidies for small businesses and/or the poor and a tax on insurance premiums to subsidize medical education and research.

Both bills will contain ``insurance reforms'' to improve portability of coverage when changing jobs, prevent policy cancellations and reduce premiums for those who become ill, and ban coverage restrictions or premium differences for pre-existing conditions. These ``reforms'' will raise premiums for most policy-holders. The bills, if enacted, will reduce employment, increase government control of health care, and reduce health care choices and quality for health care consumers.

There are two real health care reform issues: 1) how to assist the poor who cannot afford ordinary health insurance and the sick who cannot afford the higher medical bills and/or insurance premiums that come with illness, and 2) how to fix problems created by the tax break for employer-provided insurance and third-party payers, a system that curtails portability and hides much of the cost of health care from the individual consumer, leading to over-consumption of medical services and rising total costs for consumers and taxpayers.

Instead of dealing with these issues, Congress wants to 1) further shelter all sick people, regardless of income, from the cost of health care, and 2) use price controls and other rationing mechanisms to curb the resulting rise in health costs that would otherwise overwhelm the federal budget.

Why should healthy people subsidize sick people? Not everyone who is sick is poor. Not everyone who is healthy is rich. People who cannot afford health insurance or who become poor because of medical crises should be given generous aid. The aid, however, should be honest on-budget government assistance. It should not be mandated through insurance ``reforms'' (community rating, guaranteed renewal, denial of rate differences for pre-existing conditions) that skew insurance premiums to make healthy people pay more than they should so that sick people can pay less. People can get insurance for pre-existing conditions if they are willing to pay a premium reflecting the likely costs of their health care. People who can afford to pay a higher premium for insurance to cover their known conditions should do so.

Insurance reforms that members of both parties are eager to enact would raise premiums for all or most of the population. Community rating forces insurance companies to eliminate (pure community rating) or restrict (modified community rating) the risk difference in premiums for people of different ages or health status. When enacted in New York state, it more than doubled premiums for the young and/or healthy to hold down premiums for the old and/or sick. Since young workers tend to have lower incomes than older workers, community rating transfers income from poorer policy-holders to richer policy-holders.

Guaranteed renewal without rate increases regardless of changed medical conditions requires higher premiums, because people who otherwise would bear some of the cost of their illnesses after becoming ill would be covered instead by insurance. Limiting exclusions for pre-existing conditions would encourage people to delay getting insurance until they get sick, imposing higher costs on those who had been paying premiums all along.

The real source of runaway health costs is that people don't see the cost of their health care, and they over-consume. Eighty percent of medical outlays are paid by third parties through tax-favored employer-provided coverage, insurance companies or government programs. Most congressional health care proposals would worsen this problem by hiding even more of the cost from the patient through job-killing employer mandates and insurance reforms. Costs would continue to rise. Global spending targets likely to be included in the House bill would not be met. The government would impose standby price controls, and, ultimately, rationing by regulation.

Health care reform that would improve our health care system should take the following approach:

- Generous targeted assistance – subsidies, vouchers or tax credits – should be given to the poor to buy insurance or health care.

- The existing employer-related tax subsidy for insurance should be converted to an individual flat tax credit available upon proof of insurance or the establishment of a tax-deductible medical savings account (MSA) by the individual. With insurance purchased by individuals rather than employers, portability would be automatic. People would be encouraged to buy

high-deductible catastrophic policies. Deductibles would be covered with tax-free money in one's MSA. MSA money not spent on health care could be kept for retirement or other spending, giving people strong incentives to economize on their consumption of health care. Individuals and their doctors, not federal bureaucrats, would decide what health care was necessary and what was not.

State regulations that raise the cost of insurance – mandated benefits, community rating, etc. – and prevent insurance companies from offering plans tailored to consumers' needs should be overruled.

These steps address the real issues. By contrast, the plans under consideration in Congress would spray deadly "friendly fire" at the health and lives of the nation.

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