

The NAWBO Health Care Policy Working Group's Analysis of the Candidates' Health Care Reform Plans

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The Health Care Policy Working Group has written this analysis with the goal of helping NAWBO members to better understand Senators Obama and McCain's plans for expanding access to health insurance and reforming our health care system. Along with a summary of the key points, we have explained what we believe to be the positive and negative aspects of each plan. We have also suggested some bipartisan compromises that we hope could help reform move forward.

Material presented is a compilation of analysis emerging from task force discussion and other sources of published data. Readers are urged to pursue points of interest with further research and study.

McCain Plan

Key Elements

- Currently, employees are exempt from paying income tax on the dollars their employer uses to purchase their group health insurance. The McCain plan would remove this exclusion and employees would pay taxes on their insurance benefits.
- The revenues generated from eliminating the tax exclusion would be used to partially fund the provision of refundable tax credits (\$2,500 for individuals, \$5,000 for families) for all persons obtaining private health insurance; if insurance costs less than the value of the credit, the remaining funds could be deposited into health savings accounts.
- The plan would create a guaranteed access plan (GAP) made up of state-run high risk pools to provide an insurance option for persons who are medically uninsurable on the individual market.
- Promotion of individually purchased insurance and less comprehensive, less expensive insurance policies
- Deregulation of insurance markets to enable individual plans to be sold across state lines
- Other proposed measures to control costs and improve quality

Positive: The plan gives a tax credit to everyone, including those in the individual market who currently don't get any tax benefit to offset the cost of their insurance.

Negative: In order to accomplish this, the McCain plan would remove the tax *exclusion* from the group market, where 62% of Americans obtain insurance. Most people would benefit initially from the new tax *credit*, but because the amount of this credit is pegged to inflation and health care costs are increasing at four times that rate, the tax savings will disappear quickly and their costs will increase.

Proposed Compromise: Instead of removing the tax exclusion that is working so well for the group market we suggest extending the same favorable tax treatment to the purchase of all health insurance, including individuals and the self employed.

Positive: Allowing Americans to buy plans from carriers in other states would give us a greater choice of plans.

Negative: This would effectively deregulate the individual market, making ineffective the consumer protections that many states have implemented for their residents. This would allow the nationwide sale of less comprehensive, less expensive plans with major coverage gaps. We will see more exclusions for maternity and prescriptions and more limits on doctor's visits. Other common limitations may include lower yearly caps on benefits and coverage for hospital care only. Many people buy such plans in an attempt to save money without understanding the possible consequences of these coverage gaps and only realize they are underinsured when they need services most.

Proposed Compromise: We could institute national minimum requirements to ensure comprehensive coverage but continue to allow flexible design of plans. The federal government has already established such guidelines for HSA-qualified high deductible plans; they set the out-of-pocket maximum and require coverage of preventive care. One possible source for these guidelines is the Institute of Medicine.

Positive: McCain's plan will attempt to insure those with pre-existing conditions under a Guaranteed Access Plan (GAP).

Negative: The GAP would consist of state-run high risk pools. Currently, 33 states already have high risk pools and they have not been successful in covering the large number of people in need at a reasonable cost. Most pools do not cover pre-existing conditions for the previously uninsured for 6-12 months, have high deductibles, and high out-of-pocket costs. The average premium for one of these plans is \$5,200 a year plus substantial deductibles and out-of-pocket costs.

The premium alone is 10% of the income of a family of four making \$53,000 a year (or 250% of the federal poverty level) to cover one family member.

These pools now cover 200,000 Americans at a cost of \$1.7 billion a year in government subsidies and member premiums. McCain has allocated \$7-10 billion a year to fund the GAP pools. The Robert Wood Johnson Foundation has published research suggesting that up to 45% of uninsured Americans have chronic health conditions. Under McCain's plan the high risk pools would be the only option outside the group market for 21 million people. Based on the current average costs for existing pools, covering this population would cost the government about \$73 billion a year and \$110 billion in premiums for plan members. This does not include consideration of out-of-pocket costs paid by members.

Proposed Compromise: We strongly agree that coverage needs to be made available to everyone at reasonable prices regardless of their medical status but do not believe that high risk pools are the most just and efficient way to achieve this end. We believe that those with pre-existing conditions should be integrated into regular insurance pools to spread the risk and the cost fairly between all members. This is the one of the basic concepts of insurance.

Negative: McCain has not provided an estimate of what his program will cost. The Tax Policy Center, a non-partisan think tank, estimates that the plan would cost \$1.3 trillion over 10 years. McCain has said that he would offset these costs with cuts in Medicare spending and other programs. We would like to see Mr. McCain give an realistic estimate of the cost of the plan and where these cuts would be made.

Obama Plan

Key Elements

- Obama's plan would implement a "play or pay" employer mandate requiring businesses either to offer workers insurance or to pay a tax (small businesses would be exempt and would receive a 50% refundable tax credit on premiums if they purchased group coverage).
- The plan would establish new regulations that would end medical underwriting of insurance and risk rating based on health status. The result of this would be that individuals and groups would be guaranteed acceptance to insurance plans and would not pay higher rates because of previous health problems or have coverage of those problems excluded.
- Obama would create a new national health plan option (similar to Medicare) for individuals who do not have access to group insurance or other public plans and for small businesses.

- The plan would establish a new national health insurance exchange that would offer choice of private insurance options for individuals and small businesses.
- Mandate that all children must have coverage
- Subsidies for lower-income Americans to help them afford coverage
- Expanded coverage financed through the payroll tax, letting tax cuts for families making over \$250,000 expire, and savings from electronic medical records, disease management, and other system reforms
- Other proposed measures to control costs and improve quality

Positive: Small businesses would be exempt from the “pay or play” mandate; however, they would receive up to a 50% refundable tax credit on group premiums if they choose to purchase insurance for their employees. Small businesses would be guaranteed eligibility to purchase group insurance through the new national health plan which would be modeled on the plans available to members of Congress.

Negative: Medium and large sized businesses would be mandated to contribute to the cost of their employees’ insurance, either by buying group insurance or paying into the new national health plan. This would place a cost burden on these employers at a time when health care costs are rising rapidly.

Positive: Guarantees access to insurance to everyone regardless of medical conditions through a combination of public and private plans.

The Obama plan would establish a new national public health plan and a national health insurance exchange to facilitate the purchase of private insurance. These new entities are designed to expand access to coverage to most or all of the uninsured and give Americans a choice of many private plans as well as the new public plan. New rules would also ensure small businesses and individuals acceptance in the plan of their choice and premiums would not be affected by previous health problems. All plans would be required to meet standards for comprehensive coverage, quality, and efficiency.

Negative: Obama’s plan guarantees access without including a requirement that every American purchase insurance, thus allowing the purchase of insurance on-demand. Americans could put off buying insurance until they were sick and needed health services, thus shifting more of the cost burden onto the insured. This could also create adverse selection because younger, healthier people would be more likely to defer purchasing insurance while those with health problems would be more likely to buy insurance as soon as it became available and affordable to them.

Proposed Compromise: We believe that the only way to ensure coverage for every American regardless of health status and spread the risk fairly is to require that everyone purchase health insurance and to make that coverage affordable to everyone.

Positive: Obama promises that the typical family will save up to \$2,500 dollars a year in health care related costs as a result of his plan's efficiency and cost-reducing measures.

Negative: Many well respected health care economists have stated that they believe that this estimate of consumer savings is highly unrealistic, especially in the 4 year time frame that Obama gives for achieving it.

Negative: The \$50-65 billion price tag Obama has put on his plan is also seen by many experts as unfeasible. The Tax Policy Center estimates that the cost for the plan would be \$1.6 trillion over 10 years. As with McCain, we would like to see a realistic cost estimate and description of funding sources from Mr. Obama.

The NAWBO Health Care Working Group meets through conference calls held the second Wednesday of every month. Please contact Betaya at betayab@shargel.com if you are interested in joining the calls or our mailing list.

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