

Prescribing Better Under Bush's Health Plan

By Gene Steuerle

Gene Steuerle is a senior fellow at the Urban Institute and an economic consultant to Tax Analysts.

Copyright 2007 C. Eugene Steuerle.
All rights reserved.

The nation spends more than \$250 billion annually on tax incentives for workers to buy health insurance, and the cost is rising fast. Nonetheless, 47 million people lack coverage. By any standard, we aren't getting our money's worth.

Current tax subsidies favor higher-income over lower-income employees — and many poor people get no help at all. Those tax breaks also encourage us to buy excessive amounts of health insurance, because the more we spend, the bigger the subsidy. That tends to increase health costs, partly because the oversized health plans include less in the way of cost constraint, and partly because we are simply less cost conscious when someone else is paying part of the bill. The higher costs, in turn, tend to push some employees and smaller employers out of the insurance market altogether. In effect, while a basic amount of subsidy helps people buy insurance, the additional amounts spent each year probably increase — that's right, increase, not decrease — the number of uninsured.

The president proposed to tackle this issue by providing what is closer to an equal subsidy for everyone. Further, there would be no additional subsidy if we bought more expensive health insurance. He does that by suggesting a fairly significant tax break in return for buying a minimal policy. Republicans and Democrats alike should commend that effort to improve both the fairness and the efficiency of the medical marketplace.

Once we agree with the president that we want a more equally distributed subsidy and one more likely to expand insurance coverage, then we need to figure out how to amend his proposal to best achieve those goals. Yes, his proposal would give everyone the same income tax deduction as long as they purchased health insurance — that's fairer than current law. Social Security tax breaks

would certainly be more evenly distributed. But because deductions are worth more to taxpayers depending on how high their tax brackets are, higher-income people could still get income and Social Security tax subsidies worth more than \$5,000, while many moderate-income workers could at best get about \$2,300 in Social Security tax reduction. Some would do even worse. Thus, while the president's proposals would reduce the disparity in tax subsidies between rich and poor, it would not remove them. Why not simply follow the logic of the reform and grant vouchers or tax credits of equal size for every adult and, similarly, for every child?

The efficiency of the subsidy must also be improved. As structured, the proposal would turn existing health subsidies upside down by granting an additional tax benefit only to those people who put money into something called health savings accounts (HSAs). Effectively, taxpayers would be subsidized more if they did not join with others in an insurance pool to cover health costs over and above catastrophic amounts. Thus, a person enrolled in an HMO could get a tax deduction of only \$15,000, but one enrolled in an HSA could get \$15,000 plus, say, \$3,000 put into the account — a double deduction. That would discriminate against some forms of insurance and favor those who could most easily come up with the cash or afford the risk associated with high deductibles.

Much stronger incentives are also needed to deter people from signing up for insurance that is cheaper because it excludes sick people and those with chronic conditions. The administration is willing to provide states some money to deal with those issues, but it wants to redistribute money that is already earmarked for health spending. It is unclear how much protection that a potentially modest pot of money could buy.

A properly designed voucher is a much better vehicle for addressing many of those problems. It can be extended to people who pay little or no tax; it can be integrated with state Medicaid and related children's insurance for the poor; and, if it were worth the same amount per person, it would be much easier to administer by employers and insurance companies alike. The president has properly identified the illness — let's now help him put better ingredients into the prescription for a cure.