

AN ANALYSIS OF THE OBAMA HEALTH CARE PROPOSAL

John Holahan and Linda J. Blumberg

SUMMARY

OVERALL ASSESSMENT

Our general assessment of the Obama plan is that it would

- greatly increase health insurance coverage but would still leave about 6 percent of the non-elderly population uninsured, compared to 17 percent today.
- substantially increase access to affordable and adequate coverage for those with the highest health care needs, including those with chronic illnesses, by spreading health care risk broadly;
- significantly increase the affordability of care for low-income individuals; and
- reduce the growth in health spending through a broad array of strategies.

In short, Obama's proposal contains the basic components necessary for effectively addressing the most important shortcomings of the current health care system, that is, limited coverage, inadequate risk pooling, and high-cost growth.

Coverage

Senator Obama suggests a new framework—the National Health Insurance Exchange (NHIE)—by which individuals without access to Medicaid, SCHIP, or employer-sponsored insurance could obtain coverage. Obama's plan would reach almost all children and more than half of uninsured adults (in 2007, there were 8.9 million uninsured children and 36.1 million uninsured adults) by

- extending eligibility for Medicaid and SCHIP,
- providing income-related subsidies for coverage in the NHIE, and
- offering a guaranteed source of purchasing insurance coverage, even to those in poor health.

A significant number of other Americans (about 5 million) would also be added to the ranks of the insured by requiring employers to automatically enroll their workers in employer-based health plans and permitting workers to opt out, as opposed to today's system in which workers must actively choose to participate.

Risk Pooling

The Obama plan would clearly increase risk-sharing, or risk pooling, by

- prohibiting insurance companies from using health status to determine price or deny coverage,
- making comprehensive benefits available to all through the NHIE, and
- using broad-based sources of revenue to finance health insurance subsidies, thus guaranteeing that all taxpayers, not just those voluntarily deciding to purchase coverage, share in the costs of providing medical care.

Cost Containment

Senator Obama's plan provides a number of cost-containment incentives, including

- spending \$50 billion over several years to accelerate the adoption of electronic medical records and other efficient health information technology,
- creating the NHIE framework, which would result in increased insurer competition,
- repealing the ban on direct price negotiation between Medicare and drug companies and ending the overpayment of Medicare Advantage plans, and
- investing in public health and prevention, expanding chronic care management, and supporting an independent institute to conduct comparative effectiveness analyses on technologies and treatment options.

The plan's architects believe that they could save about 8 percent of health spending in these ways. We agree that cost containment must be pursued on multiple fronts, and, if pursued aggressively, they would eventually achieve savings of the magnitude they envision.

OUTSTANDING ISSUES

Despite the positive aspects of the Obama's plan, there are a few significant concerns.

- While this plan would significantly increase coverage, it would still leave about 6 percent of the non-elderly population uninsured. As a consequence, the inefficient and costly safety net system we have today will need to remain in place.
- The approach relies on an employer mandate, which could increase costs to some businesses and engender the same political opposition that has contributed to the defeat of past reform efforts.
- The campaign's cost estimates (\$65 billion) may be somewhat low, even if the campaign's cost-containment initiatives are successful. Much depends on details that are unspecified, including subsidy levels, benefits, reinsurance, and a phase-in schedule. How these are resolved will have significant implications for program costs.

AN ANALYSIS OF THE McCAIN HEALTH CARE PROPOSAL

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SUMMARY

OVERALL ASSESSMENT

The McCain health care plan represents a philosophical advance over many other health care proposals, principally in its commitment to redistributing the current tax exemption for employer-based health insurance. However, the plan raises more concerns than it addresses. The plan would

- provide a refundable tax credit that is more valuable to low-income workers than the current tax exemption for employer-based insurance, though the credit is not adequate to make coverage affordable for many;
- make insurance coverage less accessible and affordable for those with high health care needs;
- increase coverage among the currently uninsured through the nongroup market but reduce the number already covered by employers, leaving about the same number of people uninsured;
- have a high budget cost, at least in its early years.

In brief, McCain's proposal would dramatically change how many Americans obtain health insurance coverage, make coverage less accessible for those with health problems, have a high budget cost, but have little effect on the number uninsured.

Coverage

The proposed McCain tax credit would represent substantially greater subsidies for low-income people than have been available to date. However, the credit would not lead to significant net increases in insurance coverage:

- Tax credits would be the same size for all purchasers regardless of income. As a result, they would leave many low-income individuals with insufficient funds to afford adequate health insurance coverage.
- Affordability and accessibility of coverage would vary considerably by health status, age, and geographic area of residence.
- Health insurance policies would become less affordable over time because the value of the credit would increase with inflation, while the cost of health care has historically grown substantially faster.

Risk Pooling

By deregulating the health insurance market, the McCain plan would clearly decrease the sharing of health care risk. This would result in lower insurance costs for the young and healthy but would increase costs and decrease access for older individuals and those with health care problems.

- The new tax incentives would decrease employer-based coverage while increasing coverage in the nongroup market. Health insurance options in the nongroup market are often very limited for those with health problems.
- The provision to allow insurers to sell coverage to those residing anywhere in the country would undermine regulations that states have implemented to pool health care risk.
- These two provisions necessitate the reliance upon high risk pools as a fall-back mechanism to provide coverage to high-cost patients; however, McCain's proposed funding for these high risk pools falls far below what would be needed to make adequate coverage affordable to those patients.

Cost Containment

McCain's plan includes several features intended to contain costs.

- The proposal depends heavily upon tax incentives and an increased use of health savings accounts to contain rising health care costs. While these measures may create incentives to decrease spending, they will not have much effect on spending by sicker, high-cost people who account for a high percentage of the nation's spending.
- The plan proposes other strategies, such as the increased use of health information technology, chronic care management, and malpractice reform, but it is not clear if enough would be spent to successfully implement those strategies.

OUTSTANDING ISSUES

To address the problems with the proposal, the plan would need to

- provide a guaranteed source of adequate, affordable coverage for all individuals, regardless of health status;
- phase out the the employer exclusion over a period of years to avoid severe disruptions in health insurance markets;
- provide larger subsidies at the low end of the income distribution;
- develop a better strategy for spreading the costs of older and sick individuals broadly across the population; and
- make a significant commitment to cost-containment mechanisms to adopt efficient health information technology, strengthen prevention, evaluate the effectiveness of new technologies, and manage the costs of the chronically ill.