

In the Spotlight

Healthcare Reform: The Private Option

Mary Claire Kendall

Medical Progress Today

October 23, 2009

Now that Democrats are preparing to call a fiscal train wreck health care "reform," it is crystal clear that Republicans and moderate Democrats have a potential goldmine in the [Patients' Choice Act \(PCA\)](#).

Co-sponsored by Senator Tom Coburn (R-OK); Senator Richard Burr (R-NC); Congressman Paul Ryan (R-WI); and Congressman Devin Nunes (R-CA), PCA rejects top-down government mandates and conservative overselling of simple solutions. Rather it fundamentally restructures the healthcare system by emphasizing disease prevention and health promotion, affordability, accessibility, transparency and equality vis-à-vis the tax treatment of healthcare. And, unique among Congressional plans, it transforms Medicaid's third-rate healthcare system, which, Cong. Nunes [said](#), "provides not only healthcare but dignity because it puts dedicated funds directly into the pockets of the poor to purchase first-class coverage."

Partisan Democrats, by contrast, continue to pursue unworkable solutions typified by Senate Finance Committee Chair Max Baucus (D-MT), who made his immensely complex bill even more so in September, while sifting through 564 amendments. For two weeks, the Committee tinkered with one issue, only to exacerbate another, especially relative to cost. The irony is that the bipartisan Wyden-Bennett Healthy Americans Act, that would have achieved universal coverage while cutting overall health care costs by offering choice and competition, was rejected in Committee at the twelfth hour—the Committee would not even allow a vote on the bill, underscoring just how partisan and narrow the discussion has become.

The Congressional Budget Office estimates the Baucus bill will cost *only* \$829 billion over ten years, cut the deficit by \$81 billion and insure 94% of the population. But, caveat emptor: factoring in all costs, it actually scores over \$900 billion [according to Donald Marron](#), former Acting CBO director; at least 8 million will lose private insurance.

The CBO is undoubtedly making the best estimates possible within the limits of its knowledge about the future, but, not surprisingly, these government estimates are notoriously under budget; in 1970, projected Medicare spending for 1990 was an estimated \$16.3 billion when, in actuality, it weighed in at \$98 billion that year. Indeed, according to the Senate Budget Committee's Minority Staff, CBO's Baucus estimate scores 10 years of revenues but half as many years of outlays, which if counted, would bring the tab to \$1.8 trillion.

Meanwhile, Senate Majority Leader Harry Reid (D-NV) said he'll also attempt the impossible and reconcile irreconcilable differences over "the public option" that liberal Senate Democrats envision merely competing with, not swallowing up, private insurers. (Finance says no; Health says yes.)

Senator Christopher Dodd (D-CT), who shepherded the Health Committee's bill for a vote in the absence of its ailing Chairman, the late Senator Edward M. Kennedy (D-MA), evidenced a keen grasp of the obvious when he said that reconciling the two competing Senate bills "won't be easy." Nonetheless, he too believes "We'll get there."

Maybe not.

The Democrats have loaded their bills with more than one unintentional poison pill. For instance, they've expanded Medicaid coverage, piling new fiscal burdens on the states at the worst possible time—when state

tax revenues are plunging as they continue to dig out of the recession. They've also imposed a slew of new taxes on insurers, diagnostic makers, and drug companies that will be passed directly to middle-class families in the form of higher insurance premiums.

Whether they know it or not, Democrats are running headlong into the perfect storm, which calls to mind Senator Ted Kennedy's sailing exploits in thunder and lightning under black skies. His good friend Senator John Culver (D-IA) humorously recounted at his funeral that Senator Kennedy would say "there's nothing to it," in the face of an "incredible storm."

Indeed, storm clouds loom on the horizon for healthcare reform. But, Democrats who are serious about delivering universal coverage and cost containment, and who possess Senator Kennedy's willingness to chart a course for compromise, need look no further than the Patients' Choice Act for more favorable conditions.

Mirroring the bipartisan [Wyden-Bennett](#) bill, PCA transforms the present-day opaque, monopolistic system dominated by insurers and government run health plans into one that reconnects customers to healthcare's actual cost through choice and competition.

Former House Ways and Means Committee Chairman Bill Thomas (R-CA), along with other key Republicans, began to lay the groundwork for this legislation back when HillaryCare was center-stage. Developed over 15 years, the bill has two big ideas: It sunsets the employer health benefit tax exclusion, a relic of World War's II's wage and price controls, giving individuals the value of the exclusion to purchase their own coverage in a true insurance market; and transforms Medicaid into first-class healthcare by privatizing it.

Perhaps its most brilliant feature is the Medicaid transformation that realigns how nearly \$1 trillion, currently assumed under law, is spent by involving individual beneficiaries in a way that decelerates the healthcare spending growth rate, through a carefully calibrated template and formula that emphasizes health outcomes, thus addressing voters' main concern: cost. States would save \$1 trillion and the federal government \$300 million.

As Dennis Smith, Heritage Foundation Senior Fellow, emphasized, "The American people want to know how to lower the cost of healthcare," with its upward trajectory "increasingly unbearable" and ultimately unsustainable for both families and the federal government. Families now spend 16-20% of their budget on health insurance, and Medicare and Medicaid now account for 45% of total health-care spending—with Medicare's \$37 trillion debt-load positioning it to start going bust in just seven years.

Under PCA's family-centered plan, 34 million women and children (70% of Medicaid's beneficiaries) plus 4 million SCHIP eligible will receive a \$5700 refundable tax credit—the same that non-Medicaid families receive under PCA—plus a debit card subsidy of up to \$5000, enabling eligible families to purchase first-rate private health insurance stigma-free.

The 9 million disabled that Medicaid covers will experience no change; whereas coverage for Medicaid's five million long-term care beneficiaries will be funded through a defined contribution that emphasizes home healthcare, removing states' incentive to "game" the system—spending more to receive more federal matching dollars.

PCA's Medicaid transformation is the natural corollary to welfare reform, which Democratic President Bill Clinton wisely co-opted from the Republican playbook.

Martin Feldstein, chairman of the Council of Economic Advisers under President Ronald Reagan, [recently wrote](#) that "the key to raising revenue without raising marginal tax rates or creating a new tax is to reduce or eliminate some of the 'tax expenditures' that now lower tax revenue by special deductions and exclusions" such as the employer exclusion for health insurance. Doing so would raise "\$1 trillion over the next five years and nearly \$3 trillion over the next decade"—more than enough to pay for expanded

coverage.

"Eliminating the subsidy," he writes, "would also lead to a restructuring of private health insurance that would give patients the incentive to seek more cost-effective care and thereby bring down the overall cost of healthcare."

In spite of all the conflicting agendas in this spirited, sometimes dispiriting, debate over how to make healthcare more accessible *and* affordable, Thomas A. Scully, Administrator of the Centers for Medicare and Medicaid Services during President George W. Bush's first term, thinks a deal is still possible.

"There's too much at stake," he said, "given the real need for insurance reform to walk away this time."

Yes, but maybe it's time to walk toward the real solution that bends the cost curve by bending the power curve in favor of patients instead of government or insurance bureaucrats.

Admittedly, the near term outlook for bipartisan reform based on patient choice is poor, as evidenced by the Administration's wholesale rejection of Wyden-Bennett and Democrats' behind-closed-doors attempt to craft healthcare's *Mona Lisa* (final legislation merging 5 bills) that more likely will resemble a partisan Frankenstein. Until this monster falls to pieces, PCA will stay on the backburner.

But it could set the table for a new direction and real reform in 2010, when Congress looks for realistic alternatives.

