

**Rising Costs, Shrinking Benefits:
The Political Economy of Medical
Uninsurance in America**

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Introduction

60 million Americans go without health insurance in a given year. A recent Bureau of the Census survey placed the amount of Americans without insurance in any given moment at 45 million, up by more than 5 million since 2000.¹ This factor, taking into account that \$28 trillion of the nation's GDP that is spent on healthcare each year, raises some serious questions about the effectiveness of dollars used as well as the possible inequity along class lines of the quality of health/life in America. According to specific sources such as the Institute of Medicine and the Henry J. Kaiser Commission on Medicaid and uninsured, a highly competitive, privatized Health Care market in the United States will not lead to the socially optimal level of total healthcare expenditures under current conditions. In this context, equilibrium in a competitive market would lead to a more inequitable situation in which price rationing would limit the quantity and quality of health care coverage for Americans. I will examine detailed analyses of the costs of universal health care availability as well as varied alternatives that would increase availability to a significant degree. I will explore the Bush administration's ideal healthcare model, which includes tax deductible Health Savings Accounts coupled with low premium, high deductible health insurance policies, Community Health Centers, a curtailment of costs centering around the limiting of malpractice suits, and increased information through advanced IT available to healthcare consumers. I will compare the current presidential administration's healthcare plan to President Bill Clinton's attempts at the National Health Security Plan in 1993, assessing the cost of such a program as well

¹ See: Income, Poverty and Health Insurance Coverage in the United States: 2003
<http://www.census.gov/prod/2004pubs/p60-226.pdf>

as the key policy points of the plan that made it economically undesirable to many members in congress. I will fourthly explore the healthcare policy that John Kerry had planned to enact had he been elected, including a large expansion of Medicaid and SCHIP programs, larger tax refunds to employers to encourage an increased utilization of the employment based health insurance program, and availability for the unemployed and self-employed to purchase insurance through an offshoot of an already existing framework known as the Federal Employee Health Benefits Program.

The Characteristics of Health Insurance and the Market for Medical Care

The market allocates most of the money for health care costs in America. However, large rises in medical costs above inflation, and current third-party payment structures cause many problems in the healthcare market. Health Insurance is designed to mitigate the risk of the financial costs associated with care costs. 75% of medical costs are paid by either private or public health insurance. Ideally, market demand and supply for health insurance would set the price of medical coverage at an actuarially fair price. However, many problems with the health insurance market prevent this. For example, adverse selection is a choice by the insured which leads to higher than average loss-levels for insurance programs. Examples of this can be seen when healthy individuals avoid getting health insurance and the cost is driven up by sicker individuals that seek insurance. Moral hazard is also a feature of the health insurance market. Individuals that could have afforded health care before a serious medical incident fail to do so. When they become catastrophically ill or injured, they then go to community health centers and seek charity care. This care is likely to be administered in an emergency situation and cost

much more. The price of this care is then passed on to those with insurance. To prevent this, most health care analysts insist that if universal coverage is to be achieved, then minimum catastrophic insurance must be mandatory for everyone.

Statistics of the Uninsured

While traditionally Americans have obtained healthcare insurance through their employers, increasing health care costs have placed enough pressure on employers' bottom lines that significant amounts of new coverage have been withdrawn. The percentage of Americans under the age of 65 that received coverage through their employers decreased by 4% between 2000 and 2003. Of those covered under employer sponsored health care plans, slightly less than half (49%) are covered as dependents of workers. Many workers that take advantage of these programs are thus tied to their existing jobs not only for financial reasons, but also for fear that their family members will lose health coverage. If such employees change jobs, any previously extended benefits will disappear. According to the Kaiser Commission on Medicaid and the Uninsured, the average cost of employer sponsored health care plans was \$3695 for an individual and \$9950 for a family. The employee's average contribution to this plan was \$2261, which is more than a 160% increase since 2000.²

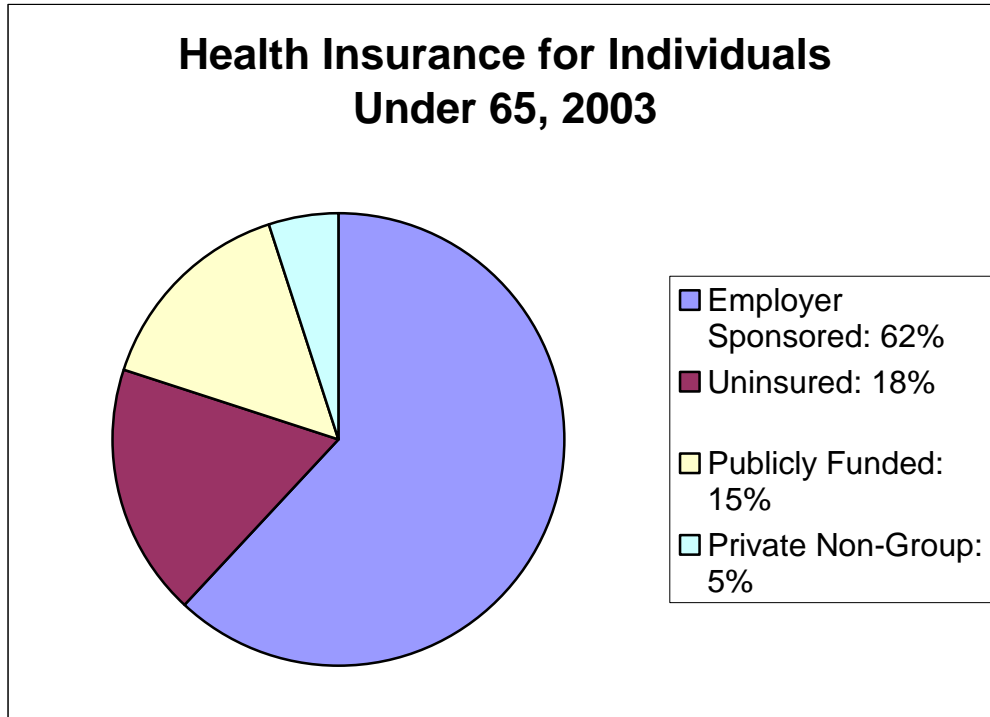
Americans over the age of 65 are entitled to health care coverage through Medicare, which has many benefits such as coverage for office visits, required medical supplies such as diabetes testing supplies, and nursing care for the catastrophically sick. However, Medicare only covers 80% of certain medical expenses such as durable

² See Kff.org: The Uninsured: A Primer, Key Facts About Americans Without Health Insurance, 2004. Page 2

medical equipment. Medigap insurance can be purchased to cover the gap in potential expenses, but this insurance has become increasingly expensive in recent years and as such, remains out of reach for much of the elderly who are on fixed incomes. As a result, many of the individuals that are on Medicare receive adequate, but not comprehensive, coverage.

The extremely poor are covered under state Medicaid programs. Medicaid now insures over 13% of the non-elderly population.³ Many increases to the funding of this program have occurred in the past decade, most notably to the State Children's Health Insurance Program (SCHIP). SCHIP's main goals are to provide health care coverage for all low-income children, even when their parents are phased out of Medicaid eligibility at relatively higher income brackets. As a result of expansions to SCHIP, the amount of uninsured children has decreased in the last decade. Because the rest of the population is covered by Medicare and Medicaid, one may correctly conclude that the increasing ranks of those without coverage are adults under the age of 65.

³ See Kff.org: Key Facts, Race Ethnicity & Medical Care



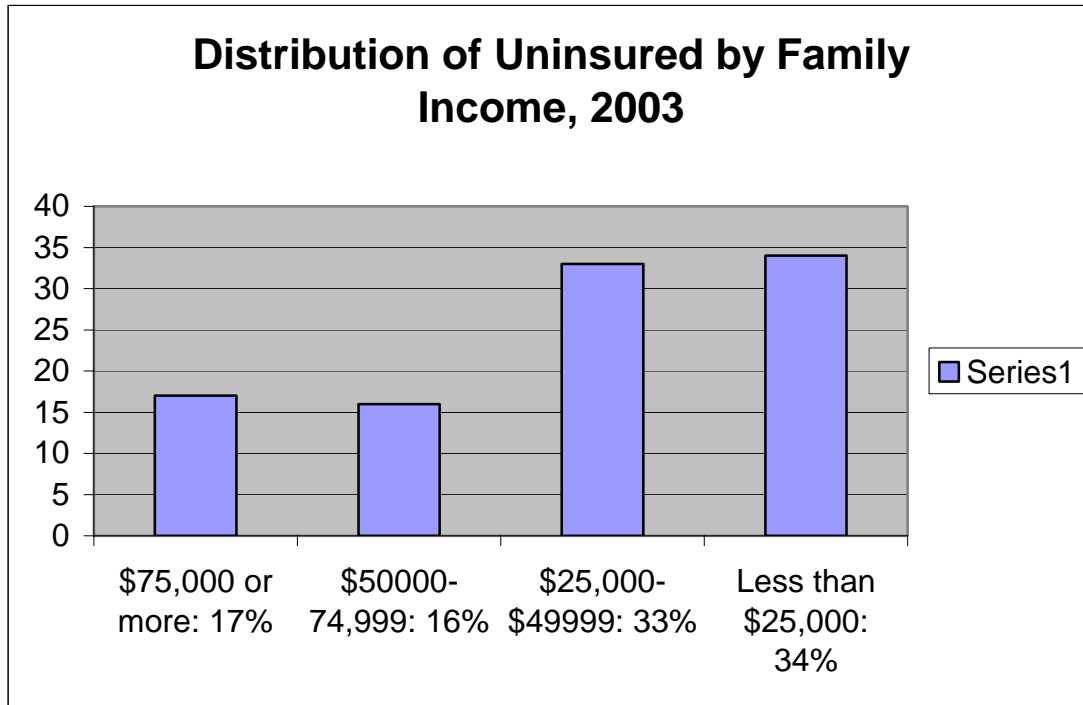
Source: Reinhardt, Reinhardt, Uwe E. "A Primer for Journalists on Reforming Healthcare: Proposals in the Presidential Campaign."

http://www.jbradforddelong.net/movable_type/health/Reinhardt.pdf

In 2003, 45 million non-elderly Americans lacked health insurance. When most surveys are conducted to assess reasoning behind a lack of insurance, the vast majority inform the person giving the survey that health insurance is simply too expensive. The number of uninsured in 2003 shows a 12.5% increase since 2000 and more than a 2.3% increase in only one year. In addition, those that are insured are largely in poorer income quartiles. According to the US census bureau, 34% of those that are currently uninsured make less than \$25,000 annually (See Figure 2).⁴ More than 81% of households without health insurance currently have at least one working member. 69% of these uninsured households have at least one full time worker. Thus, the conception that those without health insurance are largely the unemployed is largely false. The majority of the

⁴ See: Income, Poverty and Health Insurance Coverage in the United States: 2003
<http://www.census.gov/prod/2004pubs/p60-226.pdf>

uninsured are working class individuals in the lowest income quartiles. Society’s neediest go without insurance on a regular basis with very little turnover. Hence, these individuals are least likely to be offered health insurance through their employers and are most likely to be unable to afford the average \$2661 contribution when this insurance is offered.⁵



Source: Reinhardt, Reinhardt, Uwe E. “A Primer for Journalists on Reforming Healthcare: Proposals in the Presidential Campaign.”

http://www.jbradforddelong.net/movable_type/health/Reinhardt.pdf

The non-white population under 65 is far more likely to be uninsured than their white counterparts. At a 35% probability of being uninsured, Latinos are the most likely to go without coverage. Native Americans have approximately a 1 in 4 chance of being uninsured and African Americans have a 1 in 5 chance. Non-Latino whites, Asians and

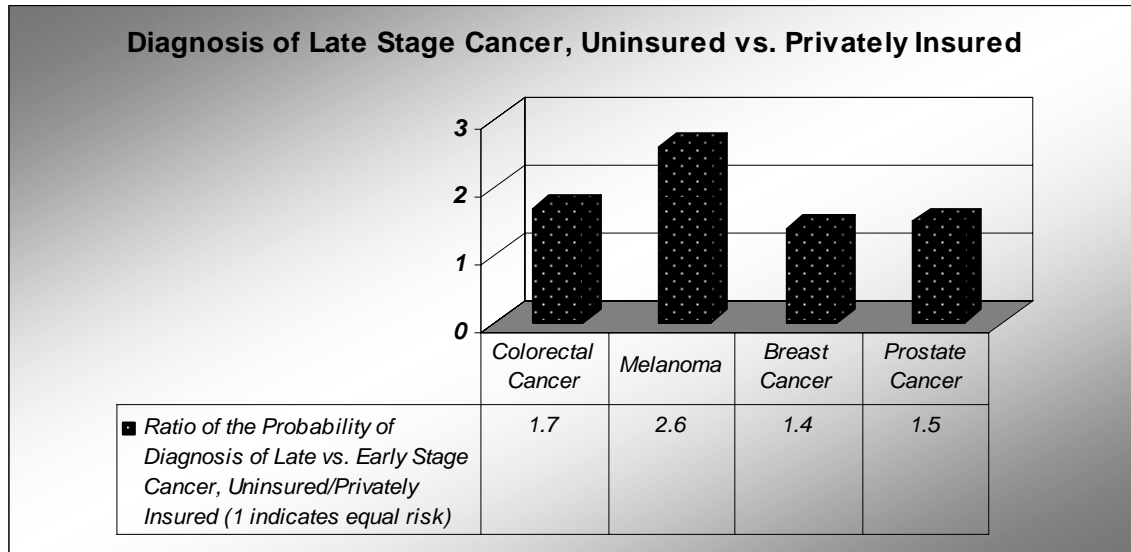
⁵ Reinhardt, Uwe E. “A Primer for Journalists on Reforming Healthcare: Proposals in the Presidential Campaign.” Page 1. http://www.jbradforddelong.net/movable_type/health/Reinhardt.pdf

Pacific Islanders combined have a comparatively small 1 in 10 chance of being uninsured. Although minorities make up about 1/3 of the population, they contribute to more than half of the ranks of the uninsured. This number has partly to do with the fact that minorities are more likely to fall below 200% of the poverty level, a demarcation considered to be “near-poor” by statisticians. Thus, given that a person is one of America’s 45 million uninsured, it is most likely that person is a near-poor male minority.⁶

The issue of extended health care coverage is divisive. Although most would agree that increased health care coverage has positive externalities for America’s productivity and well-being, many well-known economists such as those at the Wall Street Journal dispute the severity of the situation. However, according to reports by the Kaiser Commission on Medicaid and the Uninsured, a lack of health care coverage has serious impacts on people’s general well being and mortality. Those that are uninsured are significantly more likely to go without preventative care measures such as colon, prostate, and breast cancer screening. Accordingly, the uninsured are far more likely to be diagnosed with cancer in its later stages. As a result, the mortality rate of the insured versus uninsured diagnosed with cancer is much higher. As can be seen in the Kaiser Commission’s figure, the likelihood of being diagnosed with cancer in its later stages when one is uninsured is 1.7 times more likely with colorectal cancer and 2.6 times more likely with Melanoma. In addition, the uninsured diagnosed with colorectal cancer are 1.7 times more likely to perish than their insured counterparts. According to a 2002 report by the Institute of Medicine over a 17 year follow up period, adults without health insurance had a 25 percent greater chance of dying than persons with private insurance. In addition,

⁶ See Kff.org: Key Facts, Race Ethnicity & Medical Care

those without insurance receive fewer needed services in hospitals even in emergency situations and are far more likely to die shortly after discharge.⁷



Source: Henry J. Kaiser Commission on Medicaid and the Uninsured, “The Uninsured: A Primer. Key Facts About Americans without Health Insurance”

America’s Present Healthcare Structure

According to the Centers for Medicare and Medicaid Services, National Health Expenditures are projected to reach \$3.1 trillion in 2012, growing approximately 7 percent per year between the period of 2002-2012. This number includes both public and private spending. The group also estimates that national health spending will grow to 17.7 percent of the GDP in 2012, up from the 2001 number of 14.1 percent. There are several contributing factors to growing health care costs. Price inflation of medical related expenses is expected to rise more quickly than general consumer price inflation. Growth in the utilization of medical care and hence, economy wide demand for health

⁷ See iom.edu: “Care Without Coverage: Too Little, Too Late.” Institute of Medicine. May 2002.

services is expected to increase steadily during this decade. The costs of premiums are expected to grow at an accelerated pace per year, finally reaching an annual growth rate of 11.6% in 2012.

The use of prescription drugs is a large contributing factor to the growth of medical expenditures.⁸ Products like Viagra and Lipitor are hugely popular and expensive both in the private market and for insurance companies to cover. There was a noticeable decrease in prescription drug spending when Claritin was approved for over-the-counter use, but economists as a whole do not expect a deceleration in the growth of national health expenditures for prescription drugs.

Politicians have focused increasingly on the rise in health care costs due to “defensive medicine.” Defensive medicine by a physician occurs when doctors order tests and procedures that are almost assuredly unnecessary on the off chance that they will catch a negative diagnosis. This therefore decreases the probability that a malpractice suit could be placed against the doctor. Defensive medicine naturally raises the demand for medical care. In addition, large malpractice awards in the past decade have increased the cost of malpractice insurance, therefore raising doctors’ costs and eventually the cost of healthcare in general.

The costs of Health Benefits to the United States Government in terms of tax exemptions are formidable. In 2004, the federal and state governments forewent \$209.9 billion. Of that number, \$188.5 billion is foregone federal income tax. There are a variety of contributions to the current tax expenditures for health benefits. Currently, any expenditure of more than 7.5% of one’s gross income on health expenditures is fully tax

⁸ See: <http://www.cms.hhs.gov>. Centers for Medicare and Medicaid Services: “National Health Care Expenditures Projections: 2002-2012.”

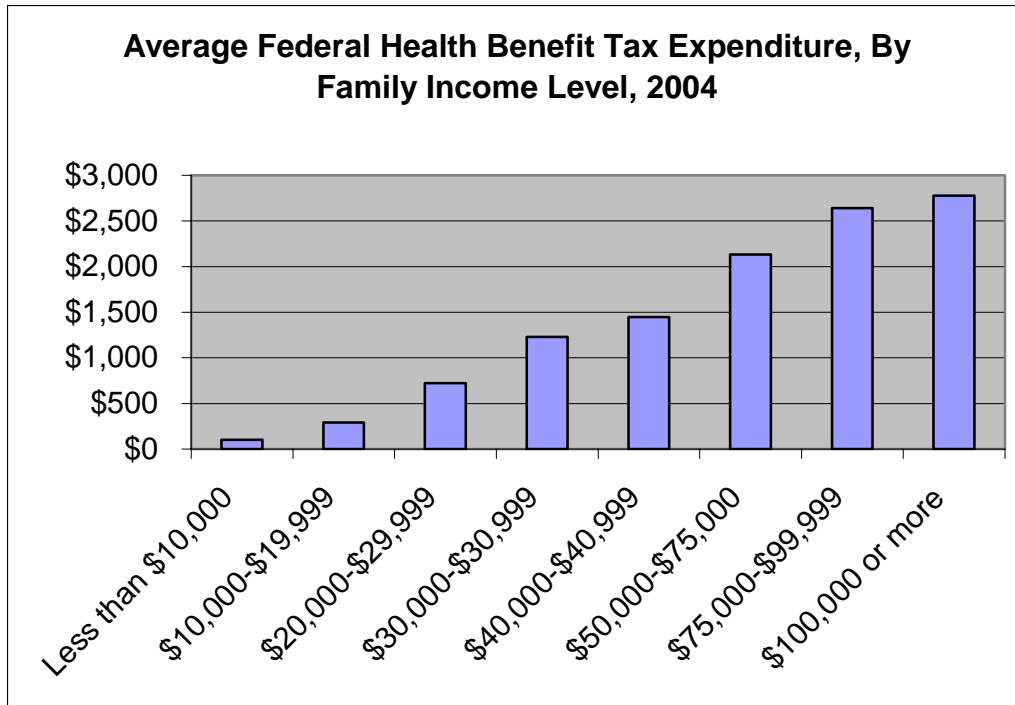
deductible. Currently when employers calculate their taxable income, any contributions to employee health insurance are considered a cost and are therefore not considered taxable income. Suggestions have been made to include the cost of health insurance as taxable income and compensate employers by giving them a tax credit for the costs of employee health benefits, but the idea has proven so complicated that many in Congress are reluctant to enact this change. Of the \$188.5 billion in foregone federal taxes, \$122.1 billion comes from personal income tax deductions and \$66.4 billion comes from tax revenue foregone due to Social Security and Medicare payroll taxes.⁹

However, the significant federal contribution for the public's health care in terms of foregone taxes largely benefits the richer classes of society. Whereas the average health benefit tax expenditure is about \$1400 per family, the average is \$2780 for families grossing income of \$100,000 or more. This is largely due to the fact that families grossing this level of income are likely to have employee sponsored health insurance and face higher tax brackets. 26.7 percent of these Health Benefit Tax Expenditures go to families that gross \$100,000 in annual income even though they make up 14 percent of the population. Families making \$50,000 or less annually receive only 28.4 percent of tax expenditures despite the fact they make up nearly 60 percent of the population.¹⁰ This fact raises equity issues. Proposals have been brought forward to include the value of the employer sponsored benefits as income when computing taxes, which would encourage individuals to opt for less expensive health care plans. In addition, a tax credit of \$1500

⁹ See: <http://www.nber.org/papers/w9567> Gruber, Jonathan and Washington, Ebonya. "Subsidies to Employee Health Insurance Premiums and the Health Insurance Market" NBER Working Paper 9567. <http://www.nber.org/papers/w9567>

¹⁰ Sheils, John and Haught, Randall. "The Cost of Tax-Exempt Health Benefits in 2004." <http://www.pophealth.wisc.edu/phs548/sheilshaught.pdf>

for individuals and \$3500 for families could be enacted and phased out at higher income levels. The problem with this proposal is that it might discourage employers from offering insurance as individuals used their tax credits to purchase insurance in the private market.



Source: Gruber, Jonathan and Washington, Ebonya. "Subsidies to Employee Health Insurance Premiums and the Health Insurance Market" *NBER Working Paper 9567*. <http://www.nber.org/papers/w9567>

Is Mandatory Universal Healthcare necessary?

In every rich industrialized nation except the United States, some form of Universal health coverage is in place. Right now, an unsuitable part of American health care is that those without medical coverage expect general hospitals and neighborhood clinics to foot the bill for them when they are sick. In 2001, \$99 billion in health care costs are spent on the uninsured. Of this figure, \$35 billion is charity care, which is

largely paid by tax payers.¹¹ This free-rider problem is a significant cost to society as a whole. It would be much cheaper to society if individuals had some type of minimal coverage to begin with that included preventative care. Those with preventative care are more likely to catch diseases in their early stages and incur lessened costs of treatment and a better prognosis as a result.

In addition, the external costs to society of America's 45 million uninsured persons are substantial. Those without insurance suffer economic and physical uncertainty, as a serious illness could both bankrupt that individual and cause her serious harm without recourse. As mentioned earlier, those that go without health care coverage are 25 percent more likely to suffer a fatality. In addition, those that are without healthcare coverage tend to be significantly sicker than those that have some type of insurance. When individuals are sicker, their value of marginal product and thus their contribution to the nation's GDP is significantly lower. Uninsured children are statistically less physically developed and have a lower chance of reaching their academic potential. The criminal justice system receives individuals that are mentally unstable and did not receive care for the problems in the beginning stages of their illnesses due to a lack of medical care.

The Institute of Medicine estimates that the benefits of insuring those that are currently without health care coverage are between \$65 and \$130 billion annually. The large range between these figures arises from how much the disparities in health services received would be lessened upon uptake of medical insurance. A lack of medical insurance can not only be considered to pose a risk to America's human capital, but also the longevity of its population. If the uninsured gain coverage, it is certain that they will

¹¹ See iom.edu: "Hidden Costs, Value Lost, Uninsurance in America." Institute of Medicine. June 2003

use more healthcare than the \$99 billion already employed towards their health care.

Estimations by the Institute of Medicine of the new costs of uptake vary between \$34-\$69 billion.

According to IOM estimations of the external benefits and costs to society, if mandatory health care coverage were enacted, the *net* cost to society would be between \$3 and \$133 billion annually. This number does not include net benefits of psychological stress withdrawn nor the savings that Medicare and the criminal justice system would enjoy if individuals received health care sooner. Reinhardt estimates that the real cost of universal coverage in the near future to be \$100 billion in federal budget outlays. Using this number as a general guideline, it is possible to observe the potential effect of a politician's health care expenditure proposal on the plight of the uninsured. When one considers that the United States is expected to spend \$3.1 trillion on health care in 2012, \$100 billion in added federal outlays does not seem like a comparatively large number. This is a 3.2% increase in terms of what is already projected to be spent.

The President's Plan to Help the Uninsured

President Bush's plan to increase the number of insured Americans revolves around refundable low income tax credits, making premiums for catastrophic insurance purchased in the non-group market tax deductible, the promotion of Health Savings Accounts, and help to employers who sponsor high deductible insurance for the employees in a group setting. The president's main contention regarding America's current healthcare delivery system is that it is inefficient. In most traditional low deductible healthcare plans, the marginal cost of treatment is relatively small. This causes

Moral Hazard, when people choose to consume more healthcare than they would if they paid a larger deductible. The president would like to see the average American with a higher deductible plan in an effort to solve this problem. President Bush would also like to see the reduction of bureaucratic costs associated with healthcare. In the 2004 economic report of the president, the president contends that at least ¼ of the uninsured could have purchased insurance through an employer but declined to do so.¹² Following this line of thought, he concludes that many adults are “young and healthy and do not see the need for insurance.” While the president is taking action to see that the number of uninsured in America decreases, he prefers to pursue this course through market incentives rather than an expansion of existing public programs.

President Bush desires to extend those with low income means-tested tax credits towards the purchase of insurance. This insurance would have to be purchased in the non-group market. If families did not owe any income taxes and they still purchased this type of insurance, they would receive money back from the government in the amount of the tax credit. In particular, this credit would be extended to offset 90% of the costs of health insurance premiums and the monthly cost charged to the consumer regardless of whether she has utilized her coverage. The maximum credit granted to the programs participants would be \$1000 for individuals and \$3,000 for families. The full amount of this credit is available for individuals up to the \$15,000 income level and phases out completely at the \$30,000 level. Families receive the full credit up to income levels of \$25,000 and phases out completely at \$40,000 for one-parent families and \$60,000 for two-parent families. If enacted, the costs of this program *over a 10 year period* are projected to be \$90 billion by

¹² See: “Healthcare and Insurance.” 2004 Economic Report of the President. <http://frwebgate1.access.gpo.gov/cgi-bin/waisgate.cgi?WAISdocID=08319284964+0+0+0&WAISaction=retrieve>

the president and \$129 billion by the Lewin Group, a premier national health care and human services consulting firm with more than 35 years of experience. The difference in the two numbers can be explained by the estimates of rise in cost of health insurance premiums. The Bush administration estimates rising premium costs of 6% while the Lewin group estimates this figure at 8%.¹³ (Reinhardt and Lewin)

These tax credits are small compared to the average cost of the comprehensive, low deductible health insurance to which most Americans are accustomed. Premiums purchased for family policies in the private market by employers easily run more than \$10,000 annually. If individuals were to purchase this insurance for their families in the private market, the price would be much higher. This is due to adverse selection of insurers; individuals purchasing insurance are far more likely to purchase policies knowing that they are likely to utilize coverage in the near future and are thus charged more than those purchasing similar insurance in a group.

The benefits of this tax policy can be estimated in the probable new uptake of coverage by American citizens. It is highly unlikely that a family making \$25,000 a year will purchase insurance at a cost of more than \$10,000 so that they can receive a tax credit of \$3,000. However, the president does not intend for this credit to be used in such a fashion. In his 2004 economic report, the president writes that the credit is designed for low premium policies that have high deductible payments when someone that is insured files a claim. The cost of these policies runs \$2000-\$5000 per year for families. Given this fact, the president's tax initiatives might encourage many families to purchase higher deductible catastrophic health insurance.

¹³ See: www.lewin.com "Medicaid Dilemma and Trends Affecting Hospitals and Health Systems." http://www.lewin.com/Spotlights/Features/Spotlight_Feature_TrendWatch2.htm

President Bush's main focus is therefore the encouragement of a steady switch from the comprehensive coverage which most Americans grew up with to catastrophic insurance that includes much higher deductibles. A centerpiece for this switchover is the newly created instrument known as the Health Savings Account (HSA). HSA's allow individuals to deposit part of their income, tax-free. The funds from this account can then be withdrawn and used to pay against health care costs such as the high deductibles of catastrophic insurance.

A complete switchover from comprehensive to catastrophic insurance would seriously impact the distribution of costs to consumers of healthcare. The chronically sick would have large out-of-pocket expenses year after year for the rest of their lives. Most catastrophic policies have maximum deductibles of \$2000-\$5000. Thus, switching people to high deductible health insurance policies not only decreases moral hazard but also shifts costs from healthy people that are more likely to work to people that are likely not fully employable because they are chronically and catastrophically ill from one year to the next. In addition, President Bush's plan to make premiums into catastrophic insurance and deposits into HSA's tax deductible effectively make the cost of healthcare cheaper for the rich. Persons in higher income brackets, facing higher tax brackets, will save more in taxes by placing money into HSA's. Although this could be fixed by giving a refundable tax credit equal to a flat percentage of what the household spends on the deposits, no progress has been made toward this end.

To encourage employee sponsored catastrophic health insurance policies, President Bush is prepared to extend tax breaks to employers of \$200 per individual and

\$500 per family.¹⁴ These tax breaks could be taken advantage of by small businesses only. The president would encourage these smaller employers to form association health plans, which effectively function as health insurance purchasing cooperatives. Intuitively, these co-ops make it easier for small employers to purchase policies at group rates. However, it may happen that these AHP's are subject to a similar adverse selection found in the private market. It may be possible that individual employers with sicker employees will try to gain entrance into these pools hoping to seek better rates. Conversely, employers with more healthy employees (say, private fitness trainers) may find cheaper rates on their own in the private market. If this were to happen, a gradual exit of the employers with healthier employees would force AHP's to collapse. In addition, the president has not suggested any means of regulating these agencies. Without oversight, it would be a simple matter for association health plans to raise rates unchecked.

Lastly, the president proposes to extend the funding for neighborhood health centers. These centers are designed to treat the uninsured. People that frequent these centers are usually those that find it somewhat difficult to sort through the red tape of Medicaid or SCHIP programs. Critics such as Reinhardt argue that effectively, neighborhood health centers allow those that fund them to ration health care without overtly stating so. The method of this "rationing" occurs simply by the amount of funding the centers receive.

Some of the president's critics have argued that his approach to healthcare is highly regressive. Catastrophic insurance coupled with HSA's shift costs to the chronically ill. Utilization of these two health care instruments effectively makes it more

¹⁴ See: "Healthcare and Insurance." 2004 Economic Report of the President. <http://frwebgate1.access.gpo.gov/cgi-bin/waisgate.cgi?WAISdocID=08319284964+0+0+0&WAIAction=retrieve>

expensive to persons with lower gross income to purchase healthcare. However, the benefit of the president's healthcare plan has been analyzed by several entities. It is important not only to take into account federal outlays in proportion to the estimated \$100 billion per year required for universal coverage, but also the new uptake of insurance under the president's proposals.

The American Enterprise Institute, a think tank that generally agrees with the president's policies, estimates that upwards of 6.7 million people will be newly insured under the president's plans. The highly respectable Lewin Group puts this figure at a higher 8.2 million, and the more liberal economist Kenneth Thorpe, a person often aligned with Senator Kerry, estimates that 2.4 millions would become newly insured. The difference in these figures comes from assumptions of the uptake of tax credits by uninsured individuals as well as the amount of crowding-in that these new programs experience. Crowding-in is a phenomenon wherein people that already have health insurance, such as those with employer sponsored benefits, decide to take advantage of tax credits and HSA's in order to save money. These people would use federal funding but would not add to the ranks of the newly insured. Assuming that 7 million people become newly insured, the president's plan would cause 14.2% of the uninsured to gain health care coverage.

The cost of President Bush's plan for new uptake of health insurance comes from tax credits and forgone tax revenue from HSA's and high deductible coverage. The American Enterprise Institute estimates that the president's proposals will cost \$128.6 billion over ten years.¹⁵ Of this figure, \$37 billion would go towards lowering the amount

¹⁵ See: www.aei.org: "Campaign Proposals for health care." http://www.aei.org/publications/pubID.21230,filter.all/pub_detail.asp

of uninsured people. The Lewin Group puts this number at \$227.5 billion over ten years and Kevin Thorpe puts his number at \$90 billion over ten years.

Clinton and the Health Security Act

In 1993, President Clinton posed a highly progressive idea of reforming America's system of healthcare coverage. He addressed the nation via television broadcast on September 22, 1993. Clinton called for Americans to fix "A Healthcare system that is badly broken" with "quality health care that can never be taken away." Clinton clearly emphasized the effectiveness of what was right with America's healthcare system in 1993: "[America's] close patient-doctor relationship, the best doctors and nurses, the best academic research and the best most advanced technology in the world." However, he projected that 19% of America's GDP would be spent on healthcare by 2000. (Note that as mentioned before, actual national health expenditures in 2001 were 14.1% of GDP. The fact that the actual number in 2001 was a much smaller percentage of GDP than analysts had estimated in 1993 stems from the fact that the managed healthcare helped to slow the growth of health care costs in the last half of the 1990's.) This estimate was exactly equal to projected wage increases at the time. Clinton not only found the economic effects of rising health care costs startling, but also assessed that the "human costs" of continuing without universal coverage to be much higher than the risk involved in a switchover. Key elements in his plan involved granting personal choice; every person would be able to choose not only their preferred doctor, but whether they wanted a traditional fee-for-service plan, a PPO, or and HMO. A national health board would be formed in order to ensure quality control. All state governments would form at least one

“health alliance,” a functioning body that would negotiate premium and deductible prices with insurers.¹⁶

President Clinton proposed that everyone would be insured, regardless of her employment status. All Americans would receive a “health security card” which entitled them to coverage. Insurers would not be allowed to deny a person coverage based on pre-existing conditions. When employees moved or switched jobs, they would be insured, no matter their status. A person finding herself unemployed would have her employer’s contribution to health insurance paid for by the federal government. Americans would all be able to choose between any health care plans in their geographic areas. Clinton’s idea was that when consumers were provided with adequate information by the federal government regarding an insurer’s costs and benefits, market forces would force the price of insurance competitively lower.

The health security plan was designed to provide comprehensive care. Prescription drug benefits, vision, and hearing care would be included in planned coverage. In addition, preventative medicine would be highly emphasized to reduce the future costly procedures of those in the later stages of diseases. Procedures such as mammograms, child’s preventative dental care, Pap smears, immunizations, colonoscopies, and general check-ups would be included at no marginal cost to health care consumers. Emergency and lab work would be included under the plan. Services including drug relapse prevention, mental health treatment, and occupational therapy would be designed to rehabilitate people and encourage them towards the workforce.

¹⁶ Hecllo, Hugh. “Clinton’s Health Reform in Historical Perspective.” *The Problem That Won’t Go Away*. The Brookings Institution: Washington, D.C.: 1996

President Clinton wanted to provide comprehensive care while simultaneously reducing costs. He was deeply concerned that in 1993, the percentage of United States GDP spent on healthcare was 14 and that no other country was above 9% of its GDP. He noted that in the recently passed budget, discretionary spending on Medicare and Medicaid were allowed to increase upwards of 11%. At the time, President Clinton's analysts projected that US inflation to be 4%.¹⁷ In 1993, health care premiums for small businesses were on average 1/3 higher than those of larger companies. One of Clinton's main thrusts for cost reduction was managed competition. State health alliances would help small business to form pools, allowing the businesses to negotiate lower premium prices. In addition, the newly formed National Health Board would ensure that insurance companies did not increase premiums significantly higher than was justified by average inflation and population growth.

To prevent significant cost shifting, President Clinton was absolutely adamant about universal coverage. Without universality, those with health insurance would be subject to significantly higher premiums. In addition, as discussed above, persons without insurance are far more likely to create significant costs to society as they will seek care in the emergency room and present doctors with their cases in the late stages of their disease. Clinton at the time noted that mortality rates were significantly higher for the uninsured and that the "human costs" of uninsurance were quite large.¹⁸

¹⁷ See: www.ibiblio.org. "Executive Summary of The Health Security Plan." <http://www.ibiblio.org/nhs.nhs-t-o-c.html>

¹⁸ Skocpol, Theda. "The Rise and Resounding Demise of the Clinton Plan." *The Problem That Won't Go Away*. Brookings Institution: Washington D.C.: 1996.

Clinton also proposed that all insurance agencies adopt a single claims form to simplify paper work. He noted that America “spend[s] a dime on the dollar more than any other major country [on health insurance forms].”¹⁹

Under the National Health Security plan, individuals and families with at least one working person would pay a maximum of 20% of the mean health insurance premium in their area. Individuals would be able to pick cheaper or more expensive plans and save or pay accordingly. If already doing so, employers could continue to pay for all or part of an employee’s health premiums. This 20% could be deducted directly from an individual’s paycheck or be written to her Regional Health Alliance. Self-employed people and independent contractors would be allowed to deduct their entire health plan premium in taxes. Individuals working part time would have part of their health care premiums subsidized by their employers. For example, if an individual worked half time, her employer would pay 40% of the premium and she would pay the remaining 40%. The unemployed and individuals earning less than 150% of the federal poverty level would be eligible for discounted premiums.

Employers would have paid for 80% of the average premium in their region towards employee’s insurance. For a two wage earner household, employer’s contributions would be reduced accordingly. Using 40 hours as a full contribution benchmark, employers would pay a pro-rata share of their 80% contribution for part time workers. Health insurance premiums for employers would be capped at 7.9% of its payroll. The health premium contributions for small businesses with 50 employees or less

¹⁹ See: www.ibiblio.org. “Executive Summary of The Health Security Plan.” <http://www.ibiblio.org/nhs.nhs-t-o-c.html>

would be capped anywhere from 3.5% to 7.9% of their payrolls. All employer health benefit contributions would be fully tax deductible.

What Senator Kerry had Planned to do about the Uninsured

A large focus of Senator Kerry's campaign for president was healthcare and the uninsured. He planned to commit 6-8 times more money over a ten year period than did President Bush. However, most of Kerry's proposed commitments to the extension of health care revolved around existing programs and were far less radical than the President's. Kerry's idea was to strengthen the existing American healthcare system in three ways: by extensively increasing the funding to Medicaid and SCHIP, granting the unemployed and self-employed subsidies toward the purchase of non-group policies in a manner similar to the Federal Health Benefits Program and by increasing the tax breaks to employers that sponsor their employees' health care.

Senator Kerry desired to extend coverage to the near poor by placing financial responsibility of many of the children in SCHIP with the federal government. He had planned to have the federal government pay for 20 million children that were already under the wing of SCHIP. In turn, he would have expected already existing Medicaid programs to cover children up to 300% of the technical Federal poverty line and working class parents up to 200% of the federal poverty line. This number runs at \$37,000 for a family of two adults and two children. Although not explicitly stated, it seems that Kerry would also have included a match of federal dollars for additional money spent by the states. Critics argue that additional funding for Medicaid should be spent in raising the program's provider allowables, the maximum amount that the federal government says

that healthcare providers can charge people using Medicaid. Because current allowables are oftentimes very low compared to the cost of living in particular regions, private healthcare providers sometimes refuse service to Medicaid recipients.

Senator Kerry had endeavored to set up an offshoot of the Federal Employee Health Benefits program. The object of setting up a program of this nature would be to extend coverage to small businesses and individuals. Some of the individuals that would qualify for this program would be those ages 55-64. Many economists applaud this idea as a much needed reform. Persons with health insurance in this age group who have checkups and utilize doctors that practice preventative medicine are much more likely to find disease in its early stages. As a result, those 55-64 would be less likely to strain Medicare when they hit 65 with diseases that are considerably worse because they could not afford to take care of them in their early stages. The federal government currently offers its employees and opportunity of this kind wherein it contributes a set amount of funds toward the purchase of a healthcare policy. All insurers offering their policies under the Federal Employee Health Benefits program would have been required to participate in a separate risk pool made up of these small businesses and individuals. In this way, one could prevent the high costs often associated with negotiating the costs of healthcare coverage in the private market.

Senator Kerry had proposed to pay for half of the cost of health insurance premiums for small employers when they offered coverage for all of their employees. Kerry had hoped to expand the number of small employers that provided their employees with health insurance. This number currently runs at about 6 in 10.²⁰ This number had

²⁰ Reinhardt, Uwe E. "A Primer for Journalists on Reforming Healthcare: Proposals in the Presidential Campaign." http://www.jbradforddelong.net/movable_type/health/Reinhardt.pdf

steadily decreased in the last decade as costs of premiums have expanded faster than the consumer price index. In addition, the temporarily unemployed would receive a 75% tax credit for money spent on health insurance and the self-employed would receive tax breaks so they would pay no more than 6% of their income toward healthcare coverage.

A particular aspect of the Senator's plan on health care that broke convention was the idea of federal cost sharing for catastrophically sick employees. The federal government would share this cost with employers that sponsored their employees' health insurance. Specifically, he proposed that the government pay three-fourths of the cost of health care spending by an employer per employee over a certain number (around \$30,000 in 2005). Kerry desired to lower the cost to employers of providing their employees insurance by 10%. He reasons that this lower cost would be passed down to employees. To insure this, a stipulation for employers to receive federal cost sharing would be that part of the money the company saved be passed down to its employees. The company would also have to make health insurance available to all of its employees and provide a plan that emphasized preventative medicine.

The effect of this plan would be a large redistribution of the cost of employee sponsored health insurance on to the shoulders of the federal government. Kenneth Thorpe estimates the transfer from employer to federal costs to be \$250 billion over ten years while the more politically conservative American Enterprise Institute estimates the cost at \$500 billion over one decade. The Lewin Group puts this cost at \$700 billion over ten years.²¹

²¹ Reinhardt, Uwe E. "A Primer for Journalists on Reforming Healthcare: Proposals in the Presidential Campaign." http://www.jbradforddelong.net/movable_type/health/Reinhardt.pdf

Kerry's proposals, if they had been enacted, were estimated by both the American Enterprise Institute and Kenneth Thorpe to add up to 27 million Americans to the ranks of the uninsured. These estimates do not report from which income brackets the newly insured would draw themselves, but considering that much of the programs had to do with SCHIP and Medicaid, it is likely that much of the near poor would be able to newly find insurance. The total cost estimates of the Senator's plans range from \$653 billion by Kenneth Thorpe to \$1.4 trillion and 1.25 trillion by the Lewin Group and the American Enterprise Institute, respectively. All of these figures represent the cost of the program over the course of a decade.

Conclusion

Most would argue that rising health care costs pose a significant problem for the national economy. They have increased at a rate much larger than inflation and take up an enormous percentage of the GDP. The uninsured also place a large economic and social burden on society. They are far more likely to seek health care in emergency rooms and with diseases in a much more serious state. As a result, they are not only less effective in the labor pool, but also far more likely to die at an earlier age. While President Bush's proposals are likely to raise the amount of people that are insured, they fall short of universal coverage. Most economists agree that without universal coverage, cost shifting and other market distortions contribute to a high degree of rising health care costs. Universal coverage has significant costs, but when one considers the astronomical \$28 trillion already spent on health care in the country, the \$100 billion estimated by

Reinhardt that would be needed to effectively reduce the number of uninsured to zero is small.

Strong proponents of market fixes would not wish to see the redistribution of wealth in the form of health insurance. Instead, they would like every individual to be placed in an appropriate insurance pool based on her risk and charged actuarially fair prices based on the likelihood that she would receive medical services of a certain cost. The government, to make sure that chronically sick people were not wholly losing their shirts, would extend refundable tax credits for health care so that individuals would never be forced to pay more than a certain percentage of their income on healthcare. However, it is unlikely that most people in this country would allow such a plan to fall in place. The idea of individuals being placed in certain risk classes associated with their predisposition to consume healthcare is wholly foreign to American culture.

Realistically, a combination of the measures proposed by Presidents Clinton and Bush as well as Senator Kerry would be the best measure for extending healthcare to the currently uninsured. Because of the current political climate, it will be a long time before another attempt at universal coverage on the scale of Clinton's plan is mounted. However, Clinton's ideas to create regulated insurance purchasing coops would do much to further the extension of healthcare coverage, especially for individuals that are self-employed and employed by small businesses. Because each person utilizing this program would decide which plan she wanted according to rates and coverage, everyone would contribute to the competitive rate of her premium costs. Along the lines of purchasing entities for group health care, President Bush's ideas of the Association Health Plan are intuitively sound. However, a regulation body needs to be set up into place to ensure that

AHP's do not raise rates unchecked. Also, proper tax structuring should be set up on the President's plans for catastrophic coverage to ensure that the after-tax cost of healthcare is not cheaper for the rich. Kerry's ideas to extend SCHIP coverage is a much a needed plan; children that receive medical care growing up place a much smaller economical burden on society later in their lives. Incremental progress towards insuring the lower income brackets should be made through a combination of existing Medicaid programs; tax breaks that guarantee working class citizens have access to health insurance; and promotion of regulated co-ops for the purchase of low premium as well as low deductible insurance policies. Above all, tens of billions of dollars need to be pumped into the exiting medical system if immediate results are to be seen. This money should be phased into programs that encourage managed competition. Health maintenance organizations are a main reason that rising health care costs were stunted in the late 20th century, and for a trend like this to continue, the government needs to set up a market structure wherein costs are driven down through competition.