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Toward Free-Market Health Care

Grace-Marie Turner

Our health care sector must change to meet the challenges of a 21st century economy. Consumers, not just in the United States but in all developed countries, are demanding a much greater role in decisions involving their health care.

People can find on the Internet a wealth of information about diseases, diagnoses, and treatment options, but all too often, they must fight bureaucracies and paperwork all along the way. Women especially believe that they, rather than a corporate human resources director, could make better decisions involving health coverage for their families if only they were given the chance.

In addition, many who have health insurance are worried that if they lose their jobs, they will lose their health insurance. And with the cost of health insurance and health care rising every year, they fear they would not be able to afford coverage on their own. The middle class is increasingly afraid that they are one premium payment away from joining the ranks of the uninsured.

Meanwhile, our system of tying health insurance to the workplace is becoming antiquated with a workforce that is increasingly independent and mobile. The Labor Department reports that four in ten Americans change jobs every year. With this kind of job mobility, it is extremely difficult to tie health insurance to the workplace and expect people to have continuity of coverage. People lose their jobs, and they lose their health insurance. We need a system that allows people to have health insurance that is portable; insurance

Talking Points

- America can lead the way in creating a health care system that fits our 21st century economy, but public policy changes are needed to lead us in a new direction.
- For the past six years, the health sector has been introducing patient choice and competition into a system that had been largely dominated by top-down, centralized management.
- Competition is working, but the new leadership in Congress is setting a clear agenda that involves expanding government health care programs and cutting back the initiatives begun over the past several years to bring more competition and patient choice into private and public programs.
- Incentives work, and competition works. What we need to do is engage the power of consumers to transform our health sector to become more efficient, more responsive to consumer needs, and more affordable.

This paper, in its entirety, can be found at:
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that they can own and control; insurance that they, and not a politician or a human resources department, decide is right for them and their families.

This move toward more individual control over health care decisions and health care spending is part of the global movement toward health care consumerism. Giving people more power and control over their health care and health insurance creates new incentives for people to be more engaged in managing their health.

Many companies realize this and are instituting new programs to give employees incentives to better manage their health spending. And they are creating new programs for those with chronic illnesses, like diabetes and asthma, to be partners in managing their care. A number of studies have shown that if people are given the tools, the information, and the incentive to manage their care, outcomes can be dramatically improved.

Leading the Way

America can lead the way in creating a health care system that fits with our 21st century economy by putting in place new policies that allow innovation to continue and that is better able to respond to consumer demands and preferences. But public policy changes are needed to lead us in a new direction.

Our health sector is like a giant ship: It takes a great deal of effort to change direction, but even a small change can lead to a very different destination over time. For the past six years, the health sector has been moving toward more free-market solutions, introducing patient choice and competition into a system that had been largely dominated by top-down, centralized management. A few very familiar examples:

- Consumers have new incentives to become partners in managing their health costs through financing options like Health Savings Accounts and company-based Health Reimbursement Arrangements. Both individuals and companies are saving money on health costs as a result.
- Choice and competition also have been introduced in public programs like Medicare and Medicaid, showing that people can choose among competing health plans that have new incentives to offer better benefits at lower costs.

Threats to the Free Market in Health Care

Competition is working, but there are threats on the horizon. The new leadership in Congress is setting a clear agenda that involves expanding government health care programs and cutting back the initiatives begun over the past several years to bring more competition and patient choice into private and public programs.

Key committee chairmen want to expand government coverage of children, putting children in families earning up to \$83,000 a year and “children” as old as age 25 into government-run plans. In addition, Senator Ted Kennedy (D-MA) has put as his top priority enacting legislation that would put all Americans on government-run health care through Medicare-for-All. Others are working to expand Medicaid to more middle-income Americans, shifting tens of tens of millions of Americans into government health care.

Innovative Solutions

So what can we do?

The health care initiative that President Bush offered during his State of the Union address in 2007 could usher in the changes that would continue to make the U.S. the leader in quality health care while addressing the growing problem of the uninsured and middle-class anxiety about high health costs.

The President would give families the opportunity to own health insurance that is portable from job to job, and he would free up some of their tax money to help them buy the coverage. The White House estimates his plan also would give a tax cut to 100 million working Americans and provide health insurance to up to 9 million more Americans without any new long-term costs to the federal treasury. The dynamic changes in the marketplace for health insurance would transform the system to offer health insurance that is more affordable, flexible, and portable.

The centerpiece of Mr. Bush’s plan is a new standard deduction for health insurance. It would be available to any taxpayer who buys qualifying health insurance. Families would get a new \$15,000 standard tax deduction, and individuals would get \$7,500. You need not itemize and will get the full deduction even if the policy you buy costs less as

long as it meets certain minimum requirements for catastrophic coverage. Families earning \$50,000 a year could save more than \$4,300 in income and payroll taxes and use the tax savings to buy health insurance.

What about the uninsured, especially those with lower incomes? The White House says the proposal would lower the average tax bill of a family without coverage by \$3,350. This would mean \$3,350 of their pay would be available to buy insurance instead of going to taxes.

But for many of the insured, this still would not be enough, so there is a second part to the President's plan involving the states: Health and Human Services Secretary Mike Leavitt (former governor of Utah) is meeting with every governor to find out what his or her state needs to create "Affordable Choices" in health insurance. Secretary Leavitt wants to help states make basic, affordable private health insurance policies available to their citizens. This could include, for example, grants in the form of vouchers or refundable tax credits to help low-income people purchase private health insurance.

The President's proposal was very innovative and took the policy community by surprise with its boldness. The President described his basic philosophy to enthusiastic applause on both sides of the aisle during his State of the Union Address when he said, "in all we do, we must remember that the best healthcare decisions are made not by government and insurance companies, but by patients and their doctors."

Changing the Conversation

This changes the whole conversation in the health policy debate. No longer are we simply talking about how much or how little to expand government programs. We now can have a new national debate over how to engage the power of consumers in transforming our health sector to become more efficient, more responsive to their needs, and more affordable. In addressing the core problem of our current dysfunctional tax treatment of health insurance, the President has won support from *The Washington Post*, *The Wall Street Journal*, and experts from think tanks as traditionally divergent as the Urban Institute and The Heritage Foundation.

Does everyone like this? No, of course not. Congressional leaders have said the proposal is dead on arrival. It is such a new and creative idea that it will take time for people to analyze and digest the plan and its implications.

- Many are fearful that it will accelerate the decline of employment-based health insurance by giving a tax break to individuals who buy coverage on their own. But job-based coverage already is declining. This will give employers and employees a new negotiating tool to bargain for insurance that offers the best value.
- Others say it doesn't do enough for the uninsured and that tax credits rather than a tax deduction would be better. Using some of the "Affordable Choices" money, states can put new resources on the table to provide state-based tax credits, vouchers, or other new subsidies to the uninsured to supplement the federal tax break.

There are many more details than we can get into here and which will be addressed over time, but what's the bottom line? The President's plan is a win/win/win/win/win:

- It is a win for the uninsured because it offers millions more Americans the chance to buy health insurance with the tax savings they will receive from the new standard deduction and likely new state subsidies.
- It is a win for states because they will have more flexibility with the new "Affordable Choices" state initiative to direct federal resources to meet the needs of citizens to get affordable health insurance.
- It is a win for employees because they now have the opportunity to buy health insurance that they can own and take with them from job to job, and it gives them more control over decisions involving their health insurance and health care.
- The health sector wins because this eliminates one of the major hidden forces driving up the cost of health insurance and gives the market new incentives to make insurance more affordable.
- Taxpayers win because 80 percent of them will receive a tax cut when they take the new \$15,000 family deduction.

Sharpening the Debate

This idea sharpens the debate between those who believe that the answer to the problems in the health sector lies in much more government involvement through expansion of public programs and those who believe that the free market can and does have much more potential to get health insurance costs down and provide people with greater access to coverage and more choices.

Incentives work, and competition works. What we need to do is engage the power of consumers to

transform our health sector to become more efficient, more responsive to consumer needs, and more affordable.

—*Grace-Marie Turner is founder and President of the Galen Institute, an Alexandria, Virginia-based non-profit research organization that advances ideas for market-based health reform. These remarks were delivered at a meeting of the Conservative Women's Network held at The Heritage Foundation and co-sponsored by the Clare Boothe Luce Policy Institute and The Heritage Foundation.*